Canasil resources inc.

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2017 AND 2016

Expressed in Canadian Dollars

INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Canasil Resources Inc.

We have audited the accompanying consolidated financial statements of Canasil Resources Inc., which comprise the consolidated balance sheets as at December 31, 2017 and 2016, and the consolidated statements of changes in shareholders' equity, loss and comprehensive loss and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

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Opinion

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of Canasil Resources Inc. as at December 31, 2017 and 2016, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 1 in the consolidated financial statements which describes conditions and matters that indicate the existence of a material uncertainty that may cast significant doubt about the ability of Canasil Resources Inc. to continue as a going concern.

"DAVIDSON & COMPANY LLP"

Vancouver, Canada

Chartered Professional Accountants

March 28, 2018

CANASIL RESOURCES INC.
CONSOLIDATED BALANCE SHEETS
AS AT DECEMBER 31
Expressed in Canadian Dollars

ASSETS		2017		2016
Current				
Cash and cash equivalents	$	202,029	$	2,265,376
Marketable securities *(Notes 3 and 16)*		1,060,500		1,659,000
Receivables		75,257		47,230
Prepaid expenses		11,989		11,381
		1,349,775		3,982,987
Reclamation bonds		40,000		28,000
Property and equipment *(Note 5)*		44,316		47,187
	$	1,434,091	$	4,058,174

LIABILITIES				
Current				
Accounts payable and accrued liabilities *(Note 9)*	$	109,583	$	137,597
SHAREHOLDERS' EQUITY				
Share capital *(Note 6)*		21,437,985		21,437,985
Contributed surplus		6,514,588		6,257,759
Accumulated other comprehensive income		678,997		1,199,692
Deficit		(27,307,062)		(24,974,859)
		1,324,508		3,920,577
	$	1,434,091	$	4,058,174

Nature and continuance of operations *(Note 1)*
Commitments *(Note 10)*
Contingency *(Note 11)*
Subsequent events *(Note 16)*

ON BEHALF OF THE BOARD:

"Alvin Jackson", Director

"Michael McInnis", Director

CANASIL RESOURCES INC.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

FOR THE YEARS ENDED DECEMBER 31

Expressed in Canadian Dollars

	Number of Shares	Share Capital *(Notes 6,7)*	Convertible Debenture *(Note 4)*	Contributed Surplus *(Note 7)*	Accumulated Other Comprehensive Income	Deficit	Total
Balance – December 31, 2015	84,659,872	$ 17,588,877	$ 4,323,549	$ 1,783,712	$ 21,000	$ (23,713,223)	$ 3,915
Private placement – shares	2,000,000	300,000	-	-	-	-	300,000
Private placement – shares	4,100,000	902,000	-	-	-	-	902,000
Private placement – units	8,000,000	2,560,000	-	-	-	-	2,560,000
Finders' warrants issued	-	(43,943)	-	43,943	-	-	-
Share issuance costs	-	(202,834)	-	-	-	-	(202,834)
Exercise of warrants	3,000,000	300,000	-	-	-	-	300,000
Exercise of stock options	137,500	20,250	-	-	-	-	20,250
Fair value of options exercised	-	13,635	-	(13,635)	-	-	-
Convertible debenture advances	-	-	55,193	-	-	-	55,193
Convertible debenture forfeited without repayment	-	-	(4,378,742)	4,378,742	-	-	-
Share-based compensation	-	-	-	64,997	-	-	64,997
Comprehensive loss for the year	-	-	-	-	1,178,692	(1,261,636)	(82,944)
Balance – December 31, 2016	101,897,372	21,437,985	-	6,257,759	1,199,692	(24,974,859)	3,920,577
Share-based compensation	-	-	-	256,829	-	-	256,829
Comprehensive loss for the year	-	-	-	-	(520,695)	(2,332,203)	(2,852,898)
Balance – December 31, 2017	101,897,372	$ 21,437,985	$ -	$ 6,514,588	$ 678,997	$ (27,307,062)	$ 1,324,508

- See Accompanying Notes -

CANASIL RESOURCES INC.

CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS

FOR THE YEARS ENDED DECEMBER 31

Expressed in Canadian Dollars

	2017	2016
Expenses		
Accounting and audit	$ 42,516	$ 44,231
Consulting	2,484	12,075
Depreciation *(Note 5)*	4,800	5,544
Director fees *(Note 9)*	48,000	-
Exploration and evaluation *(Note 4)*	1,235,421	852,703
Foreign exchange loss	41,055	32,624
Interest income	(9,435)	(14,768)
Investor relations and promotions	30,478	26,059
Legal fees	79,765	41,617
Listing and filing fees	22,600	8,017
Management fees *(Note 9)*	150,000	150,000
Office rent, services and supplies	75,441	77,525
Salaries and wages *(Note 9)*	231,755	235,566
Shareholder communications	23,362	25,474
Share-based compensation *(Note 7)*	256,829	64,997
Transfer agent fees	8,362	14,969
Travel and accommodation	10,965	7,791
Total operating expenses	(2,254,398)	(1,584,424)
Gain on sale of marketable securities *(Note 3)*	-	143,524
Loss for the year before taxes	(2,254,398)	(1,440,900)
Deferred income tax (expense) recovery *(Notes 3 and 12)*	(77,805)	179,264
Loss for the year	(2,332,203)	(1,261,636)
Other comprehensive income (loss)		
Realized gain on marketable securities *(Note 3)*	-	(143,524)
Item that may be reclassified subsequently to profit or loss:		
Change in fair value of marketable securities, net of taxes *(Note 3)*	(520,695)	1,322,216
Comprehensive loss for the year	$ (2,852,898)	$ (82,944)
Loss per share – basic and diluted	$ (0.02)	$ (0.01)
Weighted-average number of shares Outstanding – basic and diluted	101,897,372	95,408,950

- See Accompanying Notes -

CANASIL RESOURCES INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31

Expressed in Canadian Dollars

CASH RESOURCES PROVIDED BY (USED IN)	2017	2016
Operating activities		
Loss for the year	$ (2,332,203)	$ (1,261,636)
Items not involving cash		
Depreciation	4,800	5,544
Gain on sale of marketable securities	-	(143,524)
Deferred income tax expense (recovery)	77,805	(179,264)
Share-based compensation	256,829	64,997
Changes in non-cash working capital		
Receivables	(28,027)	115,076
Prepaid expenses	(608)	(4,027)
Accounts payable and accrued liabilities	(28,014)	(63,912)
Accounts payable and accrued liabilities – related parties	-	(98,132)
	(2,049,418)	(1,564,878)
Investing activities		
Proceeds on sale of marketable securities	-	213,480
Purchase of equipment	(1,929)	(2,129)
Reclamation bonds	(12,000)	-
	(13,929)	211,351
Financing activities		
Share capital issued for cash	-	4,082,250
Share issuance costs	-	(202,834)
Convertible debenture advances	-	55,193
Due to related parties, net	-	(519,000)
	-	3,415,609
Change in cash for the year	(2,063,347)	2,062,082
Cash position - beginning of year	2,265,376	203,294
Cash position - end of year	$ 202,029	$ 2,265,376

Supplemental schedule of non-cash investing and financing transactions	2017	2016
Finders' warrants issued	$ -	$ 43,943
Fair value of stock options exercised	$ -	$ 13,635
Convertible debenture transferred to contributed surplus *(Note 4)*	$ -	$ 4,378,742
Unrealized (losses) gains on marketable securities	$ (598,500)	$ 1,288,000

Supplemental cash flow information	2017	2016
Interest received	$ 15,172	$ 7,009
Interest paid	$ -	$ 208
Income taxes paid	$ -	$ -

- See Accompanying Notes -

1. NATURE AND CONTINUANCE OF OPERATIONS

Canasil Resources Inc. ("Canasil" or the "Company") is a mineral exploration company incorporated in British Columbia with its head office located at 1760 – 750 West Pender Street, Vancouver, British Columbia. The Company is considered to be in the exploration stage with respect to its interests in mineral properties, which are located in Canada and Mexico. Based on the information available to date, the Company has not yet determined whether these properties contain economically recoverable ore reserves. The Company's continuing operation is dependent upon the confirmation of economically recoverable reserves, the ability of the Company to obtain the financing necessary to maintain operations and successfully complete its exploration and development, and the attainment of future profitable production.

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") on a going concern basis, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. As at December 31, 2017 the Company had working capital of $1,240,192 (2016 - $3,845,390), which it considers to be inadequate to fund its overhead and currently planned exploration activities for the ensuing twelve months. Consistent with other junior exploration companies, the Company has no source of operating revenue, is unable to self-finance operations, and has significant cash requirements to meet its overhead and maintain its mineral interests. These material uncertainties cast significant doubt upon the Company's ability to continue as a going concern. The Company has incurred operating losses since inception and as at December 31, 2017 had an accumulated deficit of $27,307,062 (2016 - $24,974,859).

These financial statements do not include adjustments to amounts and classifications of assets and liabilities that might be necessary should the Company be unable to continue. The continuing operations of the Company are dependent upon its ability to continue to raise adequate financing and to commence profitable operations in the future. While the Company has been successful in the past at raising funds, there can be no assurance that it will be able to do so in the future.

2. SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

These consolidated financial statements have been prepared in accordance with IFRS as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee using those standards in effect for the reporting year ended December 31, 2017. The Company's board of directors approved these consolidated financial statements for issue on March 27, 2018.

Basis of measurement

These consolidated financial statements have been prepared under the historical cost convention, except for those items classified as fair value through profit and loss or available-for-sale financial assets, using the accrual basis of accounting, except for cash flow information.

Principles of consolidation

These consolidated financial statements include the accounts of the Company and its significant wholly-owned subsidiaries, CRD Minerals Corp. ("CRD"), Canmine Minerals Inc. ("Canmine"), Minera Canasil S.A. de C.V. and Minera CRD S.A. de C.V. ("Minera CRD"). Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. All significant inter-company transactions, balances, and unrealized foreign exchange translation gains or losses have been eliminated.

2. SIGNIFICANT ACCOUNTING POLICIES - *continued*

Foreign currency translation

The presentation currency of the Company and the functional currency of the Company and its subsidiaries is the Canadian dollar. Transactions in currencies other than the functional currency are recorded at rates approximating those in effect at the time of the transactions. Monetary items are translated at the exchange rate in effect at the balance sheet date and non-monetary items are translated at historical exchange rates. Translation gains and losses are reflected in profit or loss for the period.

Cash and cash equivalents

Cash and cash equivalents include cash balances held through current operating bank accounts and guaranteed investment certificates at major financial institutions that are readily convertible into known amounts of cash and which are subject to an insignificant risk of change in nominal value.

Marketable securities

Marketable securities consist of common shares of publicly traded companies and are classified as available-for-sale financial assets. The shares are recorded at fair value; gains or losses arising from changes in fair value are recorded as other comprehensive income (loss) and included in accumulated other comprehensive income (loss) until the investments are sold, at which time the accumulated gains or losses are included in income (loss) for the period. Impairment losses on available-for-sale financial assets are recognized in income (loss) for the period.

Financial instruments

All financial instruments are classified into one of five categories: fair value through profit or loss, held-to-maturity investments, loans and receivables, available-for-sale financial assets or other financial liabilities. All financial instruments and derivatives are measured in the balance sheet at fair value except for loans and receivables, held-to-maturity investments and other financial liabilities, which are measured at amortized cost. Financial instruments classified as fair value through profit or loss are measured at fair value and changes in fair value are recognized in income (loss) for the period. Available-for-sale financial assets are measured at fair value with changes in fair value recorded in other comprehensive income (loss) for the period.

The Company discloses the inputs used in making fair value measurements, including their classification within a hierarchy that prioritizes their significance. The three levels of inputs are: Level 1 – unadjusted quoted prices in active markets for identical assets or liabilities; Level 2 – inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and Level 3 – inputs that are not based on observable market data.

Property and equipment

Property includes land purchased for a future warehouse site. Equipment includes automotive and other equipment related to mineral exploration; furniture and equipment are related to corporate offices. These assets are recorded at cost and amortized over their estimated useful life using the declining balance method at rates ranging from 20% to 45% per annum. Equipment is reviewed for impairment if there is an indication that the carrying amount may not be recoverable.

2. SIGNIFICANT ACCOUNTING POLICIES – *continued*

Exploration and evaluation

The Company is currently in the exploration stage in respect of all of its mineral interests. Exploration and evaluation costs include the costs of acquiring licenses, option payments, costs incurred to explore and evaluate properties, and the fair value, upon acquisition, of mineral properties acquired in a business combination.

Exploration and evaluation expenditures are expensed in the period they are incurred except for expenditures associated with the acquisition of exploration and evaluation assets through a business combination. Significant property acquisition costs are capitalized only to the extent that such costs can be directly attributed to an area of interest where it is considered likely to be recoverable by future exploitation or sale. Development costs relating to specific properties are capitalized once management has made a development decision.

From time to time, the Company may acquire or dispose of mineral interests pursuant to the terms of option agreements. Due to the fact that options are exercisable entirely at the discretion of the optionee, the amounts payable or receivable are not recorded. Option payments are recorded in the period that the payments are made or received. The Company does not accrue costs to maintain mineral interests in good standing.

Restoration provisions

The Company recognizes liabilities for legal, statutory, contractual, and constructive obligations associated with the reclamation or rehabilitation of mineral properties that the Company is required to settle. The Company recognizes the fair value of liabilities for such obligations in the period in which they occur or in the period in which a reasonable estimate of such costs can be made. The obligation is recorded as a liability with a corresponding charge to operations. The Company has determined that it has no significant restoration obligations as at December 31, 2017.

Impairment

Non-financial assets that are subject to depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

Financial assets are reviewed at the end of each reporting period for objective evidence indicating that changes in the market, economic, or legal environment has had a negative effect on the estimated future cash flows of the asset or group of assets.

For financial assets carried at amortized cost, an impairment loss is calculated as the difference between its carrying amount and the discounted present value of the estimated future cash flows. Such impairment losses, and any subsequent reversals, are recognized in income (loss) for the period.

For available-for-sale financial assets, an impairment loss is recognized when there has been a significant or prolonged decline in fair value of the asset. Should management’s analysis of such objective evidence indicate an impairment, the cumulative loss recognized in accumulated other comprehensive income (loss) is reversed and recognized as an impairment loss in income (loss) for the period. If the fair value of previously impaired asset subsequently recovers, unrealized gains are recorded in other comprehensive income (loss); previously recognized impairment losses are not reversed.

2. SIGNIFICANT ACCOUNTING POLICIES – *continued*

Share-based compensation

The Company uses the fair value method whereby share-based compensation costs are recognized over the vesting periods for grants of all stock options and direct awards of stock. Any consideration paid by the option holders to purchase shares is credited to share capital. The Company uses the Black-Scholes Option-Pricing Model to estimate the fair value of its share-based compensation. The fair value of each grant is measured at the grant date and, where vesting is not immediate, each tranche is recognized over the vesting period. At each reporting period-end, the amount recognized as an expense is adjusted to reflect the actual number of options that are expected to vest.

Loss per share

The Company computes the dilutive effect of options, warrants and similar instruments and its effect on earnings per share is calculated based on the use of the proceeds that would be obtained upon exercise of in-the-money options, warrants and similar instruments. It is assumed that the proceeds would be used to purchase common shares at the average market price during the period. Basic loss per share is calculated using the weighted-average number of shares outstanding during the period. Existing stock options and share purchase warrants have not been included in the computation of diluted loss per share due to their anti-dilutive effect.

Income taxes

Current tax expense is calculated using income tax rates that have been enacted or substantively enacted at the balance sheet date. Deferred tax is accounted for using the liability method, which recognizes differences between the carrying amounts of assets and liabilities in the financial statements and the amounts used for tax purposes. Deferred tax liabilities are generally recognized for all taxable temporary differences, and deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that future taxable profits will be available against which those deductible temporary differences can be utilized. Deferred tax assets are recognized only to the extent that sufficient taxable profits will be available against which the asset can be utilized.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability will be settled or the asset realized, based on income tax rates and income tax laws that have been enacted or substantively enacted by the balance sheet date. The effect on deferred tax assets and liabilities due to a change in tax rates is recognized in the period that the substantive enactment occurs. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities, and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

Significant accounting estimates and judgements

The preparation of financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amount of revenues and expenses during the period. Actual amounts could differ from these estimates.

2. SIGNIFICANT ACCOUNTING POLICIES – *continued*

Significant accounting estimates and judgements - *continued*

The Company's most significant accounting judgements relate to the probability of recognition of the benefit of deferred tax assets, the determination of assumptions used to estimate share-based compensation, and the determination of functional currency.

The Company has not recognized its deferred tax assets as management does not currently consider it probable that these assets will be recovered.

The Company uses the Black-Scholes Option-Pricing Model to estimate the fair value of stock options, which requires the input of subjective assumptions including the expected price volatility of the Company's common shares, the expected life of the options, and the estimated forfeiture rate. Changes in these subjective input assumptions can materially affect the fair value estimate. Share-based compensation is a non-cash expense item that affects profit or loss and shareholders' equity and has no effect upon the Company's assets or liabilities.

The Company has considered all primary and secondary indicators under IFRS and determined that the functional currency of its subsidiaries is the Canadian dollar. While transactions conducted outside of Canada are typically denominated in either the Mexican peso or the U.S. dollar, the subsidiaries have no revenues from operations and are entirely dependent upon the Company for financing of its operations and exploration activities, which are largely determined in Canada.

New accounting pronouncements

IFRS 9 – *Financial Instruments*

In July 2014, the IASB issued the final version of IFRS 9 – *Financial Instruments,* bringing together the classification and measurement, impairment and hedge accounting phases of the IASB's initiative to replace IAS 39 Financial Instruments – *Recognition and Measurement*. The effective date of IFRS 9 is for annual periods beginning on or after January 1, 2018, with early adoption permitted. The Company has completed an analysis of IFRS 9 and does not expect any significant effect on its consolidated financial statements as a result of adopting this standard.

IFRS 16 – *Leases*

In January 2016, the IASB issued IFRS 16 – *Leases*, according to which all leases will be presented on the balance sheet, except those that meet the limited exception criteria. Respectively, rent expense is to be removed and replaced by the recording of depreciation and finance expenses. The standard is effective for annual periods beginning on or after January 1, 2019. The Company has not yet assessed the impact on its consolidated financial statements of adopting this standard.

Expressed in Canadian Dollars

3. MARKETABLE SECURITIES

Concurrent with a September 2015 option agreement with Orex Minerals Inc. ("Orex") on the Sandra-Escobar project *(Note 4)*, the Company acquired 1,400,000 common shares of Orex and, upon a subsequent reorganization of Orex, 1,400,000 common shares of Barsele Minerals Corp. ("Barsele"). In February 2016, the Company sold 700,000 Orex shares for net cash proceeds of $213,480 and a gain on sale of $143,524. These shares are designated as available-for-sale securities.

Details as at December 31 are as follows:

	Shares 2017	Cost 2017	Fair Value 2017	Fair Value 2016
Orex Minerals Inc.	700,000	$ 69,956	$ 94,500	$ 189,000
Barsele Minerals Corp. *(Note 16)*	1,400,000	210,088	966,000	1,470,000
		$ 280,044	$ 1,060,500	$ 1,659,000

Changes in the fair value of these securities for the years ended December 31 are as follows:

	2017	2016
Fair value – beginning of year	$ 1,659,000	$ 371,000
Sold – 700,000 Orex shares	-	(213,480)
Change in fair value	(598,500)	1,501,480
Fair value – end of year	$ 1,060,500	$ 1,659,000

The Company's available-for-sale securities are carried at fair value measured using a Level 1 fair value measurement whereby the carrying value is determined by using the quoted closing price of the security as at the balance sheet date. During the year, the Company recorded unrealized losses of $520,695 (2016 - $1,178,692 gain), net of deferred income tax expense of $77,805 (2016 - $179,264 recovery), through other comprehensive income (loss).

4. EXPLORATION AND EVALUATION

The Company expenses costs relating to the exploration and evaluation of its mineral properties in the period incurred. A description of the Company's mineral interests follows:

Sandra-Escobar project, Mexico

The Company has staked the Sandra claims located in Durango State, Mexico. In accordance with a 2008 agreement with Pan American Silver Corp. ("Pan American"), the Company also earned a 40% interest in Pan American's Escobar claims in 2012, which are contiguous with the Sandra claims. In addition to these claims, the Company has also acquired various other claims in the area from third parties, all of which form the Sandra-Escobar project.

In September 2015, the Company signed an option agreement with Orex on the Sandra-Escobar project providing Orex with the right to earn up to a 65% interest in the project. Orex can earn an initial 55% interest by paying the Company $500,000 (received) and incurring US$2,000,000 in exploration expenditures over a three-year period. Orex could earn an additional 10% interest by paying the Company $500,000 in cash or shares, at Orex's option, and incurring an additional US$2,000,000 in exploration expenditures within two years.

4. EXPLORATION AND EVALUATION – *continued*

Sandra-Escobar project, Mexico – *continued*

In January 2017, Orex advised the Company that it had completed the required expenditures of US$2,000,000 to earn a 55% interest in the project. The Company and Orex intend to form a 45:55 joint venture to further develop the project.

In December 2017, the Company signed a non-binding letter of intent with Pan American and Orex, which provides the basis for entering into a definitive option agreement whereby the three companies will advance the Sandra-Escobar project jointly *(Note 11)*. The terms of the letter of intent provide for the parties to incur optional expenditures of US$6,000,000 (US$5,000,000 by Pan American and US$1,000,000 jointly by Canasil and Orex) over a period of four years. Following completion of these expenditures, Pan American will have earned a 51% interest in the Sandra property and Orex and Canasil will have increased their interest in the Escobar property to 49%, such that Pan American will hold a 51% interest and Canasil and Orex will jointly hold a 49% interest in the combined Sandra and Escobar properties. Pan American will have a further option to increase its interest to 60% in the combined properties by completing a pre-feasibility study on the project.

Salamandra project, Mexico

The Salamandra project, located in Durango State, Mexico, was acquired through staking and an option to purchase a 100% interest in certain claims comprising the central 900 hectares of the project area. During 2017, the Company renegotiated the terms of this option agreement such that it acquired a 100% interest in the 900 hectares by making a final payment of US$25,000 bringing the total paid for these claims to US$250,000. These claims are subject to a 0.5% net smelter returns royalty ("NSR") that can be purchased from the owner for US$500,000.

In May 2013, the Company signed an option agreement with MAG Silver Corp. ("MAG") on the Salamandra project providing MAG with the right to earn up to a 70% interest in the project. Under the agreement, MAG had the option of incurring qualifying expenditures on the Salamandra property either directly, or by advancing funds to CRD under a non-interest bearing convertible debenture, which funds would be used to incur expenditures on the property by Minera CRD. The terms of the option agreement provided MAG with the right to convert the debenture into common shares of CRD such that MAG would hold up to a 70% interest in CRD upon exercise of the option. The agreement also provided that should MAG withdraw from the agreement prior to earning an interest, it would forfeit its interest in the convertible debenture. Since the convertible debenture would either be converted into shares or forfeited without repayment, it has been treated as an equity instrument in these financial statements. During the term of the agreement, MAG advanced a total of $4,378,742 under the convertible debenture.

In February 2016, MAG withdrew from the agreement without earning an interest in the project. Accordingly, the balance of the convertible debenture has been reclassified to contributed surplus within shareholders' equity.

La Esperanza project, Mexico

During 2006, the Company entered into an option agreement to earn a 100% interest in certain claims within the La Esperanza project, subject to an NSR of up to 1%, which was purchased by the Company in 2016 for US$15,000. The claims are located in Zacatecas State, Mexico. The Company acquired a 100% interest in these claims in May 2011 and from 2006 to 2010, has added further claims by direct staking to increase the size of the project area.

Expressed in Canadian Dollars

4. EXPLORATION AND EVALUATION - *continued*

Other projects

The Company has staked other claims located in Durango State, Mexico, which include the Colibri, Carina, Victoria, Vizcaino, and Nora projects. The Company has also staked and holds claims in British Columbia, Canada, which include the Brenda, Lil, Vega, and Granite projects. The Company holds a 100% interest in all of these projects *(Note 15)*.

Mineral title

Title to mineral properties involves certain inherent risks due to the difficulties of determining the validity of certain claims as well as the potential for problems arising from the frequently ambiguous conveyancing history characteristic of many mineral properties. The Company has investigated title to all of its mineral properties and, to the best of its knowledge, title to all of its properties is in good standing.

Expenditures for the years and cumulative expenditures as at December 31 are as follows:

	Expenditures 2017	Expenditures 2016	Cumulative 2017
Brenda, Canada	$ 42,337	$ 11,834	$ 2,385,524
- Expenditure recoveries	(3,550)	-	(209,879)
Vega, Canada	7,257	70,977	251,637
- Expenditure recoveries	(15,003)	(2,256)	(35,577)
Other, Canada	2,844	32,641	141,767
- Expenditure recoveries	(7,958)	-	(22,073)
La Esperanza, Mexico	910,517	255,237	2,656,880
- Expenditure recoveries	-	-	(262,373)
- Option payments received	-	-	(300,000)
Sandra-Escobar, Mexico	87,913	134,175	1,874,368
- Expenditure recoveries	-	(34,223)	(86,609)
- Option payments received	-	-	(500,000)
Salamandra, Mexico	118,592	226,458	6,092,701
- Expenditure recoveries	-	-	(223,652)
- Option payments received	-	-	(553,989)
Other, Mexico	92,472	157,860	3,407,676
- Expenditure recoveries	-	-	(131,346)
- Option payments received	-	-	(133,471)
	$ 1,235,421	$ 852,703	$ 14,351,584

Expressed in Canadian Dollars

4. EXPLORATION AND EVALUATION - *continued*

Expenditures for the years ending December 31, by activity, are as follows:

	2017	2016
Acquisition and option payments	$ 31,724	$ 40,891
Administration	172,168	232,266
Assays	28,131	8,449
Consulting	-	52,540
Drilling	346,365	36,117
Field costs	41,821	30,469
Geological	168,997	120,549
Geophysical	-	31,783
Land holding costs	402,439	295,327
Legal	2,755	1,971
Mapping and surveying	34,666	4,781
Road building	18,537	4,856
Transportation and rentals	11,062	27,147
Travel and accommodation	3,267	2,036
Expenditure recoveries	(26,511)	(36,479)
	$ 1,235,421	$ 852,703

5. PROPERTY AND EQUIPMENT

	Land	Automotive	Computer	Field Equipment	Furniture and Fixtures	Total
Cost						
December 31, 2015	$ 31,686	$ 63,175	$ 22,978	$ 31,971	$ 34,068	$ 183,878
Additions	-	-	2,129	-	-	2,129
December 31, 2016	31,686	63,175	25,107	31,971	34,068	186,007
Additions	-	-	1,929	-	-	1,929
December 31, 2017	31,686	63,175	27,036	31,971	34,068	187,936
Accumulated Depreciation						
December 31, 2015	-	54,990	21,771	30,349	26,166	133,276
Additions	-	2,455	1,022	487	1,580	5,544
December 31, 2016	-	57,445	22,793	30,836	27,746	138,820
Additions	-	1,719	1,476	341	1,264	4,800
December 31, 2017	-	59,164	24,269	31,177	29,010	143,620
Net Book Value						
December 31, 2016	$ 31,686	$ 5,730	$ 2,314	$ 1,135	$ 6,322	$ 47,187
December 31, 2017	$ 31,686	$ 4,011	$ 2,767	$ 794	$ 5,058	$ 44,316

6. SHARE CAPITAL

The Company's authorized share capital consists of an unlimited number of voting common shares without par value.

Private placements

In February 2016, the Company completed a private placement of 2,000,000 shares at a price of $0.15 per share for gross proceeds of $300,000. The Company paid legal and filing fees of $3,108 in respect of this private placement.

In March 2016, the Company completed a private placement of 4,100,000 shares at a price of $0.22 per share for gross proceeds of $902,000. The Company paid a 6% finder's fee of $33,000 for a portion of the shares placed. The Company also paid a due diligence fee of $15,190 and filing fees of $5,260 in respect of this private placement.

In June 2016, the Company completed a private placement of 8,000,000 units at a price of $0.32 per unit for gross proceeds of $2,560,000. Each unit consisted of one common share and one-half of one share purchase warrant with each whole warrant entitling the holder to purchase one common share of the Company at a price of $0.50 for a period of two years. The Company paid finders' fees on a portion of the placement, which consisted of 6% in cash and 3% in warrants, with each finder's warrant having the same terms as the placement warrants. The Company paid total finders' fees of $124,320 and issued 194,250 warrants to qualified finders. The fair value of the finders' warrants was estimated at $43,943 using the Black-Scholes Option-Pricing Model with the following weighted-average assumptions: risk-free interest rate of 0.54%, expected dividend yield of 0.00%, estimated stock price volatility of 115%, and expected option life of two years. In addition, the Company paid $21,956 in legal and filing fees in respect of the placement. The warrants are subject to an accelerated exercise clause such that the Company has the right to accelerate the expiry date of the warrants upon 20 days written notice should the trading price of the Company's shares exceed $0.80 for a period of 20 consecutive trading days.

Expressed in Canadian Dollars

7. STOCK OPTIONS AND WARRANTS

The Company has an Incentive Stock Option Plan (the "Plan") that complies with the rules set forth by the TSX Venture Exchange limiting the total number of incentive stock options to 10% of the issued common shares, and providing that at no time may more than 5% of the outstanding issued common shares be reserved for incentive stock options granted to any one individual. The Plan provides for the issuance of options to directors, officers, employees and consultants of the Company and its subsidiaries to purchase common shares of the Company. The stock options may be issued at the discretion of the board of directors and may be exercisable during a period not exceeding ten years. Vesting provisions are at the discretion of the board of directors, subject to the policies of the TSX Venture Exchange. Stock option and share purchase warrant transactions are summarized as follows:

	Warrants			Options		
	Number		Weighted Average Exercise Price	Number		Weighted Average Exercise Price
Outstanding, December 31, 2015	3,000,000	$	0.10	7,050,000	$	0.10
Issued/granted	4,194,250	$	0.50	450,000	$	0.21
Exercised	(3,000,000)	$	0.10	(137,500)	$	0.15
Expired	-	$	-	(200,000)	$	0.35
Outstanding, December 31, 2016	4,194,250	$	0.50	7,162,500	$	0.10
Issued/granted	-	$	-	735,000	$	0.20
Expired	-	$	-	(262,500)	$	0.18
Outstanding, December 31, 2017	4,194,250	$	0.50	7,635,000	$	0.10
Exercisable, December 31, 2017	4,194,250	$	0.50	7,635,000	$	0.10

At December 31, 2017, the Company had outstanding stock options and warrants enabling holders to acquire common shares as follows:

	Number of Shares		Exercise Price	Expiry Date
Options	375,000	$	0.10	January 4, 2019
	4,950,000	$	0.06	December 21, 2020
	400,000	$	0.21	March 1, 2021
	1,175,000	$	0.20	January 20, 2022 *(i)*
	735,000	$	0.20	January 25, 2022
	7,635,000			

(i) On January 20, 2017, these options were amended to extend their expiry date from January 20, 2017 to January 20, 2022 with all other terms remaining unchanged.

Expressed in Canadian Dollars

7. STOCK OPTIONS AND WARRANTS – *continued*

	Number of Shares		Exercise Price	Expiry Date
Warrants	762,500	$	0.50	June 21, 2018 *(i)*
	3,431,750	$	0.50	June 29, 2018 *(i)*
	4,194,250			

(i) Subsequent to December 31, 2017, the Company provided the holders of these warrants the right to exercise them on or before March 23, 2018 at a reduced price of $0.16 per share with a replacement warrant provided *(Note 16)*.

At December 31, 2017, the weighted-average remaining life for the outstanding stock options was 3.16 years and 0.49 years for the outstanding warrants.

Share-based compensation

The following table presents information relating to incentive stock options granted to directors, officers, employees, and consultants of the Company during the years ended December 31. Share-based compensation is recorded over the vesting period.

		2017		2016
Total options granted and extended		1,910,000		450,000
Average exercise price	$	0.20	$	0.21
Estimated fair value of options granted and extended	$	256,829	$	64,997
Estimated fair value per option	$	0.13	$	0.14

The fair value of the share-based compensation to be recognized in the accounts has been estimated using the Black-Scholes Option-Pricing Model with the following weighted-average assumptions:

	2017	2016
Risk-free interest rate	1.14%	0.66%
Expected dividend yield	0.00%	0.00%
Expected stock price volatility	95%	89%
Expected forfeiture rate	0.00%	0.00%
Expected option life in years	5.00	5.00

The Company has recorded share-based compensation relating to options granted and extended during the year as follows:

		2017		2016
Number of options vested in year		1,910,000		450,000
Compensation recognized in year	$	256,829	$	64,997

During fiscal 2016, 137,500 stock options were exercised for proceeds of $20,250. The proceeds and the related fair value of $13,635 recognized upon grant have been recorded as share capital. No stock options were exercised in the current year.

Expressed in Canadian Dollars

8. FINANCIAL INSTRUMENTS

The Company's financial instruments consist of the following:

		2017		2016
Cash				
Cash on deposit	$	202,029	$	177,647
Guaranteed investment certificate		-		2,087,729
	$	202,029	$	2,265,376
Marketable securities	$	1,060,500	$	1,659,000
Receivables				
Value-added taxes	$	49,527	$	19,453
Goods and services tax and other		25,730		27,777
	$	75,257	$	47,230
Reclamation bonds	$	40,000	$	28,000
Accounts payable and accrued liabilities				
Accounts payable	$	30,668	$	54,266
Accrued audit, legal, exploration and other		78,915		83,331
	$	109,583	$	137,597

Cash is classified as fair value through profit or loss and carried at fair value measured using a Level 1 fair value measurement. Marketable securities are classified as available-for-sale financial assets and carried at fair value measured using a Level 1 fair value measurement. The Company's receivables and reclamation bonds are classified as loans and receivables and carried at amortized cost; the Company's accounts payable are classified as other financial liabilities. The carrying values approximate their fair values due to the short-term nature of these instruments. The Company has no derivatives, forward contracts, or hedges.

8. FINANCIAL INSTRUMENTS – *continued*

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations. All of the Company's Canadian cash and reclamation bonds are held in interest bearing accounts and short-term guaranteed investment certificates at major Canadian banks and such balances earn interest at market rates. The Company also maintains cash in the Mexican peso and U.S. dollar, which is held through major banks in Mexico and used to fund foreign projects. Management considers the credit risk associated with its cash balances to be low. The Company is exposed to credit risk in respect of value-added tax ("IVA") refunds receivable from the government of Mexico. The Company currently receives its IVA refunds without significant delays.

The Company is exposed to market risk, which is the risk that the fair values of financial instruments will fluctuate with changes in market prices. A significant market risk to which the Company is exposed is currency risk. The cash balances, receivables, and payables that are denominated in pesos and U.S. dollars are subject to currency risk due to fluctuations in the exchange rate between the Canadian dollar and the peso/U.S. dollar. At December 31, 2017, the Company held the equivalent of $70,437 in cash, $49,527 in receivables, and $22,903 in accounts payable, all of which are denominated in pesos. In addition, the Company held the equivalent of $123,661 in cash denominated in U.S. dollars. Due to the amount and nature of these balances and the volatility of the exchange rates between the Canadian dollar, U.S. dollar, and Mexican peso, such currency risk could result in future gains or losses to the Company. During the year ended December 31, 2017, the Mexican peso weakened against the Canadian dollar by approximately 2.0%; the U.S. dollar weakened against the Canadian dollar by approximately 6.6%. Based on the Company's peso and U.S. dollar denominated monetary assets and liabilities as at December 31, 2017, a 10% fluctuation in the exchange rates with the Canadian dollar would result in a gain or loss of approximately $9,706 and $12,366, respectively. To manage currency risk, the Company maintains only the minimum amount of foreign cash that is necessary to fund its ongoing exploration activities. Accounts payable denominated in foreign currencies are settled in a timely manner.

The Company's marketable securities are subject to market downturns and declines in share prices and therefore the Company is exposed to significant market risk in respect of these financial instruments.

Due to the value and nature of the Company's financial instruments, it is management's opinion that the Company is not exposed to significant interest rate risk in respect of these financial instruments.

The carrying value of the financial assets recorded in these financial statements, totalling $1,377,786, represents the Company's maximum exposure to credit and market risk as at December 31, 2017.

The Company's policies and processes of managing all risks associated with its financial instruments have not changed during the current year.

Expressed in Canadian Dollars

9. RELATED PARTY TRANSACTIONS AND KEY MANAGEMENT COMPENSATION

The Company had transactions with related persons or corporations, which were undertaken in the normal course of operations. Key management includes officers and non-executive directors. The compensation paid or payable to key management for the years ended December 31 is as follows:

		2017		2016
Salaries	$	225,000	$	225,000
Management fees		150,000		150,000
Director fees		48,000		-
Legal fees		63,951		18,285
	$	486,951	$	393,285

In addition, the Company recorded share-based compensation of $197,415 (2016 - $nil), which relates to incentive stock options granted to directors and officers. Share-based compensation is a non-cash item calculated using the Black-Scholes Option-Pricing Model with the assumptions detailed in Note 7.

Accounts payable and accrued liabilities include $28,282 (2016 – $nil) in legal fees due to a law firm in which an officer of the Company is a partner;

During the year ended December 31, 2016, the Company repaid loans of $519,000 received in 2015 and prior years from a director, an officer, and a company with a director in common. The loan advances were unsecured, non-interest bearing, and had no fixed terms of repayment.

10. COMMITMENTS

The Company has a lease agreement for office premises that expires on September 30, 2018. As at December 31, 2017, monthly payments were $3,442 and include basic rent and common operating costs. Minimum future annual lease payments (based on current common operating costs) payable during fiscal 2018 total $30,979.

The Company has an employment agreement with the chief executive officer and a management agreement with the chief financial officer for aggregate monthly compensation totalling $31,250 per month. The agreements provide for termination provisions should the contracts be terminated without cause or should there be a change of control of the Company.

11. CONTINGENCY

In September 2017, Pan American filed a legal action against the Company in the Supreme Court of British Columbia claiming certain rights under the 2008 option agreement on the Sandra-Escobar project. Pan American has not served the Company in respect of this action and the Company believes that the action is without merit. In December 2017, the Company, Pan American, and Orex entered into a non-binding letter of intent to enter into an option agreement whereby the three companies will advance the Sandra-Escobar project jointly *(Note 4)*. A condition precedent to signing the definitive option agreement is Pan American withdrawing its legal action.

Expressed in Canadian Dollars

12. INCOME TAXES

The Company has various non-capital tax losses and deferred exploration expenditures that are available for carry forward to reduce taxable income of future years. Details of income tax expense for the years ended December 31 are as follows:

	2017	2016
Loss before income taxes for accounting purposes	$ (2,254,398)	$ (1,440,900)
Expected tax recovery for the year	(586,000)	(375,000)
Change in statutory, foreign tax, foreign exchange rates and other	(66,195)	155,736
Permanent differences	74,000	(5,000)
Share issuance costs	-	(53,000)
Change in unrecognized deductible temporary differences and other	656,000	98,000
Tax expense (recovery) for the year	$ 77,805	$ (179,264)

Deferred taxes reflect the net effects of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The significant components of the Company's deferred tax assets and liabilities as at December 31 are as follows:

	2017	2016
Deferred Tax Assets (Liabilities)		
Non-capital loss carry-forwards	$ 2,516,000	$ 2,299,000
Exploration expenditures	5,049,000	4,673,000
Equipment	41,000	40,000
Share issuance costs	32,000	45,000
Marketable securities	(101,000)	(181,000)
Allowable capital loss	(19,000)	(14,000)
Unrecognized Deferred Tax Assets	$ 7,518,000	$ 6,862,000

The Company's deferred tax assets (liabilities) expire as follows:

		2017	Expiry Date Range		2016
Share issuance costs	$	124,000	2036 to 2040	$	174,000
Non-capital losses	$	9,218,000	2026 to 2037	$	8,384,000
Equipment	$	149,000	Not applicable	$	147,000
Exploration expenditures	$	17,214,000	Not applicable	$	15,952,000
Investment tax credits	$	55,000	2027 to 2033	$	55,000
Marketable securities	$	(780,000)	Not applicable	$	(1,393,000)
Allowable capital loss	$	(72,000)	Not applicable	$	(54,000)

Expressed in Canadian Dollars

13. CAPITAL DISCLOSURES

The Company is in the business of mineral exploration and has no source of operating revenue. The Company has no short- or long-term debt and typically finances its operations through the issuance of capital stock. Capital raised is held in cash in an interest bearing bank account or guaranteed investment certificate until such time as it is required to pay operating expenses or exploration and evaluation costs. The Company is not subject to any externally imposed capital restrictions. Its objectives in managing its capital are to safeguard its cash and its ability to continue as a going concern, and to utilize as much of its available capital as possible for exploration activities. The Company's objectives have not changed during the current year.

14. SEGMENTED INFORMATION

The Company currently operates in only one operating segment, that being the mineral exploration industry. The Company operates in the following geographical locations:

2017	Canada	Mexico	Total
Property and equipment	$ 6,275	$ 38,041	$ 44,316

2016	Canada	Mexico	Total
Property and equipment	$ 6,573	$ 40,614	$ 47,187

15. PROPOSED SPIN-OFF TRANSACTION

In July 2017, the Company announced its intention to undertake a spin-off transaction to segregate its British Columbia properties into a separate company, Canmine, a wholly-owned subsidiary of the Company. Upon completion, shareholders of the Company will receive shares of Canmine in proportion to their shareholdings of the Company, which will continue to hold its Mexican properties. The transaction will be carried out as a Plan of Arrangement under the Business Corporations Act (British Columbia). The shareholders of the Company approved the transaction at a special meeting held on December 12, 2017 and the Company received final court approval on December 20, 2017. Completion of the transaction is subject to the conditional listing of the shares of Canmine on the TSX Venture Exchange.

16. SUBSEQUENT EVENTS

Subsequent to December 31, 2017, the Company:

- sold 700,000 Barsele shares *(Note 3)* for gross cash proceeds of $490,000 and a gain on sale of $383,936;
- granted the holders of 4,194,250 share purchase warrants, with an exercise price of $0.50 per share *(Note 7)*, the right to exercise their warrants at a reduced price of $0.16 on or before March 23, 2018. Holders exercising their warrants on or before March 23, 2018 will receive a replacement warrant with an exercise price of $0.25 per share expiring on February 28, 2020 and subject to an acceleration clause should the closing price of the Company's shares exceed $0.33 per share for period of ten consecutive trading days. In March 2018, 2,309,250 warrants were exercised for cash proceeds of $369,480; the terms of the 1,885,000 unexercised warrants remain unchanged.

Management's Discussion and Analysis
For the Year Ended December 31, 2017

INTRODUCTION

Canasil Resources Inc. ("Canasil" or the "Company") is a mineral exploration company listed under the trading symbol "CLZ" on the TSX Venture Exchange. The Company is engaged in the exploration and development of mineral properties with prospects for silver, gold, copper, zinc and lead in Durango and Zacatecas States, Mexico, and in British Columbia, Canada. The Company's project portfolio includes seven silver-focused projects in Mexico, and four projects in British Columbia, two of which are prospective for hosting copper-gold porphyry mineralized systems.

This Annual Management's Discussion and Analysis ("MD&A") is dated March 27, 2018, and provides information on the Company's activities for the year ended December 31, 2017, and subsequent activity to the date of this report. The following discussion and analysis of the financial position and performance of the Company should be read in conjunction with the audited annual consolidated financial statements and related notes for the years ended December 31, 2017 and 2016, prepared in accordance with International Financial Reporting Standards ("IFRS"), as well as the MD&A for the year ended December 31, 2016.

Discussion of the Company, its operations and associated risks is further described in the Company's filings available for viewing at www.sedar.com.

HIGHLIGHTS

Highlights of the Company's activities during the year under review are as follows:

- completed a 2,452-metre drill program at its La Esperanza project in Durango and Zacatecas States, Mexico and completed a comprehensive review of the drill data;
- undertook a surface sampling program at La Esperanza;
- received notice from Orex Minerals Inc. ("Orex") advising that it had completed the required expenditures to earn a 55% interest in the Sandra-Escobar project in Durango State, Mexico, and would forego the second option to earn an additional 10% interest in the project;
- renegotiated the terms of the option agreement on the central 900 hectares of its Salamandra project in Durango State, Mexico and acquired a 100% interest in all of the project claims;
- continued progress on its comprehensive review and update of the data bases on its BC projects, which included a short inspection program at the Brenda project in September 2017;
- announced its intention to transfer the BC projects to a new public company through a spin-off transaction with shareholder approval received on December 12, 2017 and final court approval received on December 20, 2017;
- completed a trenching and sampling program at the Salamandra project;
- entered into a non-binding letter of intent with Pan American Silver Corp ("Pan American") and Orex to enter into an option agreement whereby the three companies will advance the Sandra-Escobar property.
- in January 2018, the Company sold marketable securities for gross cash proceeds of $490,000 and in March 2018, received cash proceeds of $369,480 upon the exercise of 2,309,250 warrants.

OUTLOOK

Market Conditions

Following a protracted downturn in precious metal and commodity prices and the resource sector from mid-2011 to the end of 2015, gold, silver and metal prices staged a marked recovery in 2016. Silver traded up to US$20 per ounce by June/July 2016, up from US$14 per ounce at the beginning of the year. However, during the second half of 2016 silver prices were volatile and gradually declined back to US$16 per ounce by December 2016. This was mainly due to prospects of higher interest rates in the United States and the increase in the value of the U.S. dollar following the U.S. elections in November 2016. In 2017 and to the date of this report, silver prices have continued to be volatile, increasing to over US$18 per ounce in February, April, and September 2017 only to go back to below US$16 per ounce in early July and late December 2017. The silver price continued to fluctuate during the first quarter of 2018, increasing to US$17.50 per ounce in late January and falling back down below US$16.50 per ounce in mid-March 2018. Gold and base metals also have not seen the expected increases in prices in spite of a generally positive economic outlook in the US, Europe and Asia. This has dampened some of the earlier optimism for the resource and exploration sectors seen in the first half of 2016. The Company managed to use the more positive window in 2016 to significantly strengthen its working capital which continues to assist management in considering initiatives such as the drill program completed at the La Esperanza project with positive results. However, the recent uncertainty and relatively low gold, silver and base metal prices have slowed the pace of advance for exploration projects, including the Company's plans.

Corporate Outlook

Larger and mid-tier mining companies remain interested in opportunities to advance exploration projects and in acquiring new projects, which are positive factors given the Company's strong portfolio of exploration projects.

The Company has reviewed the recent encouraging drill results from the La Esperanza project, and completed further surface sampling over the La Esperanza vein area to investigate blind extensions along strike in both directions. This data has been evaluated to plan further drilling at La Esperanza. The Company also intends to advance its other exploration projects in Mexico to define additional targets. This has included surface sampling programs and further geological evaluation at its Salamandra project in late 2017 and early 2018.

In British Columbia, the prospecting and airborne magnetics survey completed at the Vega project in late 2016, and the review of the Brenda project database in late 2016 and 2017 have highlighted the potential of these projects for hosting multiple targets for copper-gold porphyry mineralization. In addition, there has been significant interest by larger gold and copper producers in projects neighboring the Company's Brenda gold-copper project, including Centerra Gold Inc. (Centerra) acquisition of AuRico Metals Inc. (AuRico), owner of the Kemess Underground and Kemess East deposits located 15 km southeast of the Brenda project (Centerra/AuRico Metals news release Nov. 7, 2017). In August 2017, Hudbay Minerals Inc. (Hudbay) entered into a farm-in agreement on Amarc Resources Ltd.'s (Amarc) Joy project, located immediately adjacent to the north and east of the Brenda project (Amarc news release August 22, 2017).

In consideration of the potential of the Company's BC projects and the renewed interest by larger companies in British Columbia exploration and other factors, in July 2017, the Company proposed to undertake a spin-off transaction to segregate its BC properties into a separate company in which the shareholders of Canasil will receive shares in proportion to their shareholdings of Canasil. The transaction received shareholder and final court approval in December 2017. Completion of the transaction is subject to the Company meeting the minimum listing requirements and obtaining a conditional listing of the shares of the new company on the TSX Venture Exchange (see *"Proposed Transactions"*).

In September 2017, Pan American Silver Corp. filed a legal action against the Company in the Supreme Court of British Columbia claiming certain rights under the 2009 option agreement on the Sandra-Escobar project. Pan American has not served the Company in respect of this action and the Company believes that the action is without merit. In December 2017, the Company, Pan American, and Orex entered into a non-binding letter of intent to enter into an option agreement whereby the three companies will advance the Sandra-Escobar project jointly. A condition precedent to signing the definitive option agreement is Pan American withdrawing its legal action.

The terms of the letter of intent with Pan American and Orex provide for the parties to incur optional expenditures of US$6,000,000 (US$5,000,000 by Pan American and US$1,000,000 jointly by Canasil and Orex) over a period of four years. Following completion of these expenditures, Pan American will hold a 51% interest and Canasil and Orex will jointly hold a 49% interest in the combined Sandra and Escobar properties. Pan American will have a further option to increase its interest to 60% in the combined properties by advancing the project to pre-feasibility.

FINANCIAL CONDITION

As at December 31, 2017, the Company had working capital of $1,240,192, compared to working capital of $3,845,390 at December 31, 2016. As the Company had no financing activities during the year, the decrease in working capital is due to the resources used for operations, changes in the fair value of marketable securities, and an increase in reclamation bonds. The Company's working capital consists of the following:

		December 31, 2017		December 31, 2016
Cash and cash equivalents	$	202,029	$	2,265,376
Marketable securities (i)		1,060,500		1,659,000
Receivables		75,257		47,230
Prepaid expenses		11,989		11,381
Accounts payable and accrued liabilities		(109,583)		(137,597)
Working capital	$	1,240,192	$	3,845,390

(i) At December 31, 2017, the Company held 700,000 shares of Orex and 1,400,000 shares of Barsele Minerals Inc. ("Barsele") with market values of $94,500 and $966,000, respectively. In January 2018, the Company sold 700,000 Barsele shares for gross cash proceeds of $490,000. As at the date of this report, the market values of the 700,000 Orex and 700,000 Barsele shares were $98,000 and $525,000 respectively.

The Company had no short or long-term debt at December 31, 2017.

Liquidity and Financial Resources

The Company has no income from operations and is dependent upon raising funds through the issuance of shares or disposing of interests in its mineral properties (by option, joint venture or outright sale) to finance acquisitions, exploration and development of mineral properties, and meet general and administrative expenses.

During the current year, the Company incurred cash expenses of $1,992,769, which included administrative expenses of $757,348 and exploration and evaluation expenses of $1,235,421. Exploration costs include $346,365 in drilling costs incurred at La Esperanza. This drill program was completed in April 2017 and therefore such costs would only be incurred in future if further drill programs are undertaken. The administrative budget and exploration and land holding budgets for each of the Company's properties are established depending on expected cash resources and such budgets are regularly adjusted according to actual cash resources.

Management of the Company does not consider its current working capital to be sufficient to meet its budgeted overhead and planned exploration and land holding requirements for the ensuing twelve months. In addition, a substantial portion of its working capital consists of marketable securities that fluctuate in value and may have to be sold to raise cash. In the long-term there can be no assurance that the Company will be successful in securing the financing required to continue operations and advance its mineral projects.

Commitments

The Company has an employment agreement with the chief executive officer and a management agreement with the chief financial officer for aggregate compensation totalling $31,250 per month. The agreements provide for termination provisions should the contracts be terminated without cause or should there be a change of control of the Company. The Company has a lease agreement for its office premises that expires on September 30, 2018 and currently requires payments of $3,442 per month.

FINANCIAL PERFORMANCE

Loss

The Company's loss for the current and comparative fourth quarters includes the following:

		2017		2016
General and administrative expenses	$	226,915	$	279,535
Exploration and evaluation expenditures		277,647		247,383
Total operating expenses		504,562		526,918
Deferred income tax expense		-		122,850
Loss for the quarter	$	504,562	$	649,768

The Company's loss for the current and comparative years includes the following:

		2017		2016
General and administrative expenses	$	1,018,977	$	731,721
Exploration and evaluation expenditures		1,235,421		852,703
Total operating expenses		2,254,398		1,584,424
Gain on sale of marketable securities		-		(143,524)
Deferred income tax expense (recovery)		77,805		(179,264)
Loss for the year	$	2,332,203	$	1,261,636

The Company was significantly more active both corporately and in the field during 2017 compared to 2016, which resulted in higher administrative and exploration costs. This increase in activity resulted in higher general and administrative costs including increases in legal fees, listing and filing fees, a reinstatement of director fees, and share-based compensation as detailed below. Exploration and evaluation expenditures include drilling, geological, and assay costs incurred on the drilling and surface sampling programs conducted at the La Esperanza project, the trenching and surface sampling program at Salamandra, and the continuing data compilation work on the BC projects. Due to exploration activities being conducted under an option agreement with Orex, the Company had lower direct exploration expenditures on its mineral properties during 2016.

General and administrative expenses for 2017 and 2016 include share-based compensation, a non-cash item, of $256,829 and $64,997 respectively. Accordingly, general and administrative expenses, excluding share-based compensation, were $762,148 in the current year, and $666,724 for the comparative year. The most notable increases for 2017 were for legal, listing, and filing fees incurred in respect of the Pan American legal claim, the new agreement with Pan American and Orex, and the proposed spin-off transaction. Director fees were reinstated in 2017 after having been suspended since 2012 due to poor market conditions.

No marketable securities were sold in the 2017. In 2016, the Company sold marketable securities and realized a gain of $143,524.

Comprehensive Income (Loss)

The Company's comprehensive loss for the current and comparative fourth quarters includes the following:

		2017		2016
Loss for the quarter	$	504,562	$	649,768
Other comprehensive loss		-		822,150
Comprehensive loss for the quarter	$	504,562	$	1,471,918

During the fourth quarter of 2016, the Company experienced unrealized losses on its marketable securities of $945,000, less deferred income tax expense of $122,850; there was no change in the fair value of its marketable securities in the fourth quarter of 2017.

The Company's comprehensive loss for the current and comparative years includes the following:

	2017	2016
Loss for the year	$ (2,332,203)	$ (1,261,636)
Other comprehensive income (loss)	(520,695)	1,178,692
Comprehensive loss for the year	$ (2,852,898)	$ (82,944)

During 2017, the Company experienced unrealized losses on its marketable securities of $598,500, less deferred income tax expense of $77,805, whereas in 2016, the Company experienced unrealized gains of $1,357,956, less deferred income tax recovery of $179,264.

Cash Flows

Cash used for operating activities during the fourth quarter, before changes in non-cash working capital items, was $503,362 and compares to $525,173 used in the comparative quarter. The decrease in cash used for operations is due to a decrease in cash general and administrative expenses of $52,075 and an increase in cash exploration costs of $30,264 for the current quarter. The decrease in cash used for general and administrative expenses for 2017 relates primarily to the timing of the payment of salaries and management fees in 2016.

Cash used for operating activities for the year, before changes in non-cash working capital items, was $1,992,769 and compares to $1,513,883 used in the comparative year. The increase in cash used for operations is due to an increase in cash general and administrative expenses of $96,168 and cash exploration costs of $382,718 as detailed in the discussion of Loss. Cash used in investing activities includes a $12,000 increase in reclamation bonds required on the BC projects. In 2016, proceeds of $213,480 were received from the sale of 700,000 Orex shares. There were no financing activities during 2017 – during 2016, the Company issued shares from treasury for three private placements and the exercise of options and warrants for net proceeds of $3,879,416, received a final payment of $55,193 under a convertible debenture from MAG, and repaid $519,000 in loan advances received from related parties in 2015 and previous years.

SELECTED ANNUAL INFORMATION

The information in the following table provides selected financial information of the Company for 2017 and the two preceding years. This information derives from the Company's audited consolidated financial statements and should be read in conjunction with those statements and related notes. The information is presented in accordance with IFRS.

Year Ended December 31	2017	2016	2015
Total Revenue	$nil	$nil	$nil
Share-Based Compensation Expense	$256,829	$64,997	$143,635
Exploration and Evaluation Expense	$1,235,421	$852,703	$1,114,924
Gain on Sale of Marketable Securities	$nil	$143,524	$nil
Loss for the Year	$2,332,203	$1,261,636	$1,640,993
Comprehensive Loss for the Year	$2,852,898	$82,944	$1,619,993
Loss per Share – Basic and Diluted	$0.02	$0.01	$0.02
Total Assets	$1,434,091	$4,058,174	$822,556
Working Capital (Deficiency)	$1,240,192	$3,845,390	$(74,687)
Long-Term Liabilities	$nil	$nil	$nil
Dividends per Share	$nil	$nil	$nil
Shareholders' Equity	$1,324,508	$3,920,577	$3,915

In 2017, the Company completed a drill program and surface sampling program at La Esperanza, a trenching and surface sampling program at Salamandra, and continued with its comprehensive review and update of the data bases on its BC projects, which included a short inspection program at the Brenda project in September 2017. In 2016, the Company raised a significant amount of equity financing and completed short field programs on its BC projects, including aerial mag surveys on the Vega and Granite projects, and in December 2016 commenced a drill program at La Esperanza. During 2015, the Company was active at its Salamandra project, under the MAG option agreement, completing a third round of drilling and analyzing results from the extensive work completed to date.

The Company granted 735,000 stock options and extended 1,175,000 options in 2017, granted 450,000 stock options in 2016, and 5,000,000 in 2015. The options granted in 2015, in part, replaced 2,625,000 options that expired during that year. Until December 2015, the Company had not granted a significant number of stock options since January 2012.

In 2016, the Company sold 700,000 shares of Orex for a gain of $143,524.

SUMMARY OF QUARTERLY INFORMATION

The following table provides selected financial information of the Company for each of the last eight quarters presented in accordance with IFRS:

Year	2017				2016			
Quarter ended:	Dec. 31	Sep. 30	Jun. 30	Mar. 31	Dec. 31	Sept. 30	Jun. 30	Mar. 31
Revenue	$nil	$nil	$nil	$nil	$nil	$nil	$nil	$nil
Exploration and evaluation expenses	$277,647	$199,005	$210,939	$547,830	$247,383	$221,811	$124,117	$259,392
Option payments received	$nil	$nil	$nil	$nil	$nil	$nil	$nil	$nil
Share-based compensation expense	$nil	$nil	$nil	$256,829	$nil	$nil	$nil	$64,997
Gain on sale of marketable securities	$nil	$nil	$nil	$nil	$nil	$nil	$nil	$143,524
Deferred income taxes (recovery)	$nil	$1,365	$67,795	$8,645	$122,850	$(129,220)	$(138,320)	$(34,574)
Loss for the period	$504,562	$404,524	$451,759	$971,358	$649,768	$226,349	$112,901	$272,618
Other comprehensive loss (income)	$nil	$9,135	$453,705	$57,855	$822,150	$(864,780)	$(925,680)	$(210,382)
Comprehensive loss (income) for the period	$504,562	$413,659	$905,464	$1,029,213	$1,471,918	$(638,431)	$(812,779)	$62,236
Loss per share: basic and diluted	$0.00	$0.00	$0.00	$0.01	$0.01	$0.00	$0.00	$0.00
Weighted-average shares outstanding	101,897,372	101,897,372	101,897,372	101,897,372	101,897,372	101,839,356	91,145,586	86,611,520

DISCUSSION OF QUARTERLY INFORMATION

During the first quarter of 2016, the Company monitored Orex's progress at Sandra-Escobar and granted 450,000 stock options. The Company sold marketable securities and realized a gain of $143,524. During the second quarter of 2016, the Company continued to monitor progress at its Sandra-Escobar project and conducted a surface sampling program at its Nora project. Having raised significant equity financing in the first half of 2016, during the third quarter of 2016, the Company continued with sampling programs in Mexico and completed a field program on its Vega, Lil, and Granite projects in BC. During the fourth quarter, the Company planned and commenced a core drilling program at La Esperanza, completing 189 metres before the end of the year. In addition, the Company continued work on compiling comprehensive data packages on its other projects in both Mexico and British Columbia.

During the first quarter of 2017, the Company completed its drill program at La Esperanza, granted 735,000 stock options, and extended 1,175,000 existing stock options for a further five years. During the second quarter of 2017, the Company conducted a surface sampling program at La Esperanza and continued its work on the data bases of the BC projects. In the third quarter of 2017, the Company conducted a short field program at the Brenda project and commenced work on the information circular and required reports for the proposed spin-off transaction. During the fourth quarter of 2017, the Company conducted a trenching and sampling program at Salamandra, completed a technical report on the Brenda project, and held a special shareholder meeting on the spin-off transaction.

MAJOR OPERATING MILESTONES

During the year under review, the Company completed drill and surface sampling programs at its La Esperanza project, a trenching and sampling program at Salamandra, received notice from Orex advising that it would be electing to earn a 55% interest in the Sandra-Escobar project, renegotiated the terms of the underlying option agreement on a portion of its Salamandra project, initiated arrangements to spin-off the BC projects into a new public company, and signed a non-binding letter of intent with Pan American and Orex to advance the Sandra-Escobar project. The Company did not complete any equity financings or issue any shares from treasury during the year.

FINANCIAL INSTRUMENTS

		2017		2016
Cash				
Cash on deposit	$	202,029	$	177,647
Guaranteed investment certificate		-		2,087,729
	$	202,029	$	2,265,376
Marketable securities	$	1,060,500	$	1,659,000
Receivables				
Value-added taxes	$	49,527	$	19,453
Goods and services tax and other		25,730		27,777
	$	75,257	$	47,230
Reclamation bonds	$	40,000	$	28,000
Accounts payable and accrued liabilities				
Accounts payable	$	30,668	$	54,266
Accrued audit, legal, exploration and other		78,915		83,331
	$	109,583	$	137,597

Cash is classified as fair value through profit or loss and carried at fair value measured using a Level 1 fair value measurement. Marketable securities are classified as available-for-sale financial assets and carried at fair value measured using a Level 1 fair value measurement. The Company's receivables and reclamation bonds are classified as loans and receivables and carried at amortized cost; the Company's accounts payable are classified as other financial liabilities. The carrying values approximate their fair values due to the short-term nature of these instruments. The Company has no derivatives, forward contracts, or hedges.

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations. All of the Company's Canadian cash and reclamation bonds are held in interest bearing accounts and short-term guaranteed investment certificates at major Canadian banks and such balances earn interest at market rates. The Company also maintains cash in the Mexican peso and U.S. dollar, which is held through major banks in Mexico and used to fund its foreign projects. Management considers the credit risk associated with its cash balances to be low. The Company is exposed to credit risk in respect of value-added tax ("IVA") refunds receivable from the government of Mexico. The Company currently receives its IVA refunds without significant delays.

The Company is exposed to market risk, which is the risk that the fair values of financial instruments will fluctuate with changes in market prices. A significant market risk to which the Company is exposed is currency risk. The cash balances, receivables, and payables that are denominated in pesos and U.S. dollars are subject to currency risk due to fluctuations in the exchange rate between the Canadian dollar and the peso/U.S. dollar. At December 31, 2017, the Company held the equivalent of $70,437 in cash, $49,527 in receivables, and $22,903 in accounts payable, all of which are denominated in pesos. In addition, the Company held the equivalent of $123,661 in cash denominated in U.S. dollars. Due to the size and nature of these balances and the volatility of the exchange rates between the Canadian dollar, U.S. dollar, and Mexican peso, such currency risk could result in future gains or losses to the Company. During the year, the Mexican peso weakened against the Canadian dollar by approximately 2.0%; the U.S. dollar weakened against the Canadian dollar by approximately 6.6%. Based on the Company's peso and U.S. dollar denominated monetary assets and liabilities as at December 31, 2017, a 10% fluctuation in the exchange rates with the Canadian dollar would result in a gain or loss of approximately $9,706 and $12,366 respectively. To manage currency risk, the Company maintains only the minimum amount of foreign cash that is necessary to fund its ongoing exploration activities. Accounts payable denominated in foreign currencies are settled in a timely manner.

The Company's marketable securities are subject to market downturns and declines in share prices and therefore the Company is exposed to significant market risk in respect of these financial instruments.

Due to the value and nature of the Company's financial instruments, it is management's opinion that the Company is not exposed to significant interest rate risk in respect of these financial instruments. The carrying value of the financial assets recorded in these financial statements, totalling $1,377,786, represents the Company's maximum exposure to credit and market risk as at December 31, 2017. The Company's policies and processes of managing all risks associated with its financial instruments have not changed during the current year.

RELATED PARTY TRANSACTIONS AND KEY MANAGEMENT COMPENSATION

The Company relies heavily on its directors and officers for many of its administrative and professional services. Key management includes executive and non-executive directors and officers. The compensation paid or payable to key management for the years ended December 31 is as follows:

		2017		2016
Salaries – chief executive officer	$	225,000	$	225,000
Management fees – chief financial officer		150,000		150,000
Director fees		48,000		-
Legal fees – law firm in which an officer is a partner		63,951		18,285
	$	486,951	$	393,285

In addition, the Company recorded share-based compensation of $197,415 (2016 - $nil), which relates to incentive stock options granted to directors and officers. Share-based compensation is a non-cash item calculated using the Black-Scholes Option-Pricing Model with the assumptions detailed in Note 7 to the December 31, 2017 consolidated financial statements.

Accounts payable and accrued liabilities includes $28,282 (2016 - $nil) in legal fees due to a law firm in which an officer of the Company is a partner; there were no other related party balances as at December 31, 2017.

OUTSTANDING SHARE DATA

Details of the Company's outstanding shares, options, and warrants is as follows:

	March 27 2018	December 31 2017	December 31 2016
Shares issue and outstanding	104,206,622	101,897,372	101,897,372
Outstanding stock options	7,635,000	7,635,000	7,162,500
Outstanding warrants	4,194,250	4,194,250	4,194,250
Diluted shares outstanding	116,035,872	113,726,622	113,254,122

During 2017, the Company granted 735,000 new stock options and extended 1,175,000 existing options for a further five years; on October 29, 2017, 262,500 options expired unexercised. Notes 6 and 7 to the Company's December 31, 2017 consolidated financial statements provide additional details regarding share capital, stock option, and warrant activity for the year.

In February 2018, the Company granted the holders of 4,194,250 share purchase warrants, with an exercise price of $0.50 per share, the right to exercise their warrants at a reduced price of $0.16 on or before March 23, 2018. Holders exercising their warrants on or before March 23, 2018 will receive a replacement warrant with an exercise price of $0.25 per share expiring on February 28, 2020 and subject to an acceleration clause should the closing price of the Company's shares exceed $0.33 per share for period of ten consecutive trading days. In March 2018, 2,309,250 warrants were exercised for cash proceeds of $369,480; the terms of the 1,885,000 unexercised warrants remain unchanged.

CHANGES IN ACCOUNTING POLICIES

There were no changes in accounting policies during the year ended December 31, 2017. The Company's significant accounting policies, and recent pronouncements, are provided in Note 2 to the December 31, 2017 audited consolidated financial statements.

NEW ACCOUNTING PRONOUNCEMENTS

IFRS 9 – *Financial Instruments*

In July 2014, the IASB issued the final version of IFRS 9 – *Financial Instruments*, bringing together the classification and measurement, impairment and hedge accounting phases of the IASB's initiative to replace IAS 39 Financial Instruments – *Recognition and Measurement*. The effective date of IFRS 9 is for annual periods beginning on or after January 1, 2018, with early adoption permitted. The Company has completed an analysis of IFRS 9 and does not expect any significant effect on its consolidated financial statements as a result of adopting this standard.

IFRS 16 – *Leases*

In January 2016, the IASB issued IFRS 16 – *Leases*, according to which all leases will be presented on the balance sheet of lessees, except those that meet the limited exception criteria. Respectively, rent expense is to be removed and replaced by the recording of depreciation and finance expenses. The standard is effective for annual periods beginning on or after January 1, 2019. The Company has not yet assessed the impact on its consolidated financial statements of adopting this standard.

OFF-BALANCE SHEET ARRANGEMENTS

The Company does not have any off-balance sheet arrangements and does not contemplate such arrangements in the foreseeable future.

PROPOSED TRANSACTIONS

The Company is currently in various discussions with other companies with respect to the funding and advancement of its projects, however, it does not have any proposed transactions in this regard as at the date of this report.

In July 2017, the Company announced its intention to undertake a spin-off transaction to segregate its BC properties into a separate company, Canmine Minerals Inc. ("Canmine"), a wholly-owned subsidiary of the Company. Upon completion, shareholders of the Company will receive shares of Canmine in proportion to their shareholdings of the Company, which will continue to hold its Mexican properties. The transaction will be carried out as a Plan of Arrangement under the Business Corporations Act (British Columbia). The shareholders of the Company approved the transaction at a special meeting held on December 12, 2017 and the Company received final court approval on December 20, 2017. Completion of the transaction is subject to the Company meeting the minimum listing requirements and obtaining a conditional listing of the shares of Canmine on the TSX Venture Exchange.

CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amount of revenues and expenses during the period. Actual amounts could differ from these estimates.

The Company's most significant accounting judgements relate to the probability of recognition of the benefit of deferred tax assets, the determination of assumptions used to estimate share-based compensation, and the determination of functional currency.

The Company has not recognized its deferred tax assets as management does not currently consider it probable that these assets will be recovered.

The Company uses the Black-Scholes Option-Pricing Model to estimate the fair value of stock options, which requires the input of highly subjective assumptions including the expected price volatility of the Company's common shares, the expected life of the options, and the estimated forfeiture rate. Changes in these subjective input assumptions can materially affect the fair value estimate. Share-based compensation is a non-cash expense item that affects profit or loss and shareholders' equity and has no effect upon the Company's assets or liabilities.

The Company has considered all primary and secondary indicators under IFRS and determined that the functional currency of its subsidiaries is the Canadian dollar. While transactions conducted outside of Canada are typically denominated in either the Mexican peso or the U.S. dollar, the subsidiaries have no revenues from operations and are entirely dependent upon the Company for financing of its operations and exploration activities, which are largely determined in Canada.

DISCLOSURE FOR VENTURE ISSUERS WITHOUT SIGNIFICANT REVENUE

The Company has no source of operating revenue. The Company's consolidated financial statements for the year ended December 31, 2017 provide a breakdown of the general and administrative expenses for the year under review and an analysis of the exploration and evaluation expenses incurred on its mineral properties.

MINERAL PROPERTY SUMMARY

The Company holds the following mineral exploration projects in Mexico and Canada:

Durango and Zacatecas, Mexico:	**British Columbia, Canada**
• Sandra silver-gold project – 100%, and Escobar silver-gold claims – 40%, subject to option agreement with Orex • Salamandra zinc-silver project – 100% • La Esperanza silver-zinc-lead project – 100% • Carina silver project – 100% • Colibri silver-zinc-lead-copper project – 100% • Vizcaino silver-gold project – 100% • Victoria zinc-silver project – 100% • Nora silver-gold-copper project – 100%	• Brenda, gold-copper property – 100% • Vega, gold-copper property – 100% • Granite, gold property – 100% • LIL, silver property – 100%

During the period under review, the Company completed a drill program and a sampling program at its La Esperanza project, continued with the compilation and review of the data bases on its BC projects, and announced its intention to spin-off the BC projects into a new public company.

La Esperanza

The La Esperanza silver-zinc-lead project claims cover 14,916 hectares and are located on the border of Durango and Zacatecas States, 100 kilometres south-southeast of the City of Durango. The project is located in a prolific mining district on the important Fresnillo silver trend, 80 kilometres northwest of the Fresnillo mine, and approximately 35 kilometres from Pan American Silver's la Colorada mine, and First Majestic Silver's La Parrilla and Del Toro mines. Systematic and comprehensive exploration programs have been conducted on the project, including satellite imaging and high-resolution mapping, 1,330 line-kilometre ZTEM airborne geophysical survey, extensive geological mapping and sampling and 7,728 metres of drilling in 32 diamond drill holes. Prior drilling has returned wide high-grade silver-lead-zinc intercepts from the La Esperanza vein, which is open in all directions. Additional occurrences of silver-lead-zinc vein mineralization have also been identified in the northwest of the project area. Two of these have been tested with initial drill programs, which indicated potential for significant silver-lead-zinc mineralization.

In November 2016, the Company received a drill permit covering up to 30 drill holes in the La Esperanza vein area. On December 20, 2016, the Company commenced a drill program to test the La Esperanza vein along strike and to depth from previous drill intercepts, planned for 1,500 to 2,000 metres in four to five drill holes. The Company increased the program to eight drill holes for 2,452 metres, which were all completed by April 2017, within the originally planned budget. All eight drill holes intercepted the La Esperanza vein extending the confirmed envelope to over 400 metres along strike and 425 metres to depth. Results have been received for all eight drill holes and were announced in news releases dated February 9, March 23, April 5, and May 2, 2017. Results from the 2016-17 drill program are particularly encouraging as they extend the La Esperanza vein mineralization along strike to the southeast and to the northwest, as well as to depth. Furthermore, drill hole ES-17-19 returned the highest gold values recorded to date from the La Esperanza vein together with high silver values. These results open the La Esperanza vein for further expansion by drilling in both directions along strike and to depth.

Results from the 2016 – 17 La Esperanza drill program are listed in the table below:

La Esperanza 2016-17 Drill Program – December 2016 to May 2017										
Hole ES-16-12										
	Interval - Metres		Width – Metres		Gold	Silver	Zinc	Lead	Copper	Silver Eq*
	From	To	Interval	True	Au g/t	Ag g/t	Zn %	Pb %	Cu %	Ag Eq g/t
	347.36	348.94	1.58	1.36	0.08	23.0	1.98	1.31	0.04	192
Including	347.36	347.83	0.47	0.41	0.08	16.5	**4.81**	**2.89**	0.02	**398**
And	348.47	348.94	0.47	0.41	0.16	57.9	1.74	1.45	0.11	**251**
	368.40	370.07	1.67	1.44	0.11	5.0	**3.60**	0.75	0.03	**309**
Including	369.45	370.07	0.62	0.54	0.27	8.9	**9.64**	**2.00**	0.00	**584**
	387.16	390.73	**3.57**	**3.08**	0.14	21.0	**2.63**	0.82	0.08	**211**
Including	387.16	389.87	**2.71**	**2.34**	0.17	26.0	**2.17**	1.07	0.09	**206**
Including	387.71	388.71	1.00	0.86	0.10	35.0	**2.63**	0.78	0.14	**227**
Including	387.71	388.01	0.30	0.26	0.12	38.2	**3.57**	1.43	0.14	**308**
And	388.01	388.35	0.34	0.29	0.08	51.5	**3.31**	0.66	0.20	**278**
And	389.36	389.87	0.51	0.44	0.54	33.2	**4.38**	**3.64**	0.13	**469**
Bit fused unable to complete hole, may not have intersected entire vein structure										
Hole ES-17-13										
	421.38	422.20	0.82	0.71	0.30	131	0.64	0.23	0.84	**281**
Hole lost in cavity, may not have intersected or recovered entire vein structure										
Hole ES-17-14										
HW Vein	176.30	179.50	**3.20**	**2.13**	0.01	38	0.50	0.14	0.02	70
La Esp	187.40	190.40	**3.00**	**2.51**	0.01	63	0.50	0.15	0.03	98
	Vein intercept close to fault, broken and soft material, low recoveries									
Hole ES-17-15										
	202.90	208.32	**5.42**	**4.14**	0.10	33	1.06	0.63	0.02	122
Including	202.90	204.95	**2.05**	**1.56**	0.05	51	1.90	1.38	0.03	**215**
Vein intercept close to fault, broken and soft material, low recoveries										
Hole ES-17-16										
	139.41	145.35	**5.94**	**4.92**	0.01	**257**	0.64	0.63	0.03	**321**
Including	143.00	145.35	**2.35**	**1.95**	0.03	**628**	0.90	1.52	0.08	**750**
Including	144.20	145.35	1.15	0.95	0.06	**1,133**	1.56	**2.98**	0.16	**1,362**
Hole ES-17-17										
HW 1 Vn	240.15	242.48	**2.33**	**2.02**	0.00	89	1.82	1.00	0.01	**228**
HW 2 Vn	248.33	248.60	0.27	0.23	0.04	**236**	0.28	**8.43**	0.06	**618**
HW 3 Vn	250.02	252.00	1.98	1.71	0.03	**225**	1.30	0.59	0.12	**332**
Including	250.02	251.21	1.19	1.03	0.03	**277**	**2.01**	0.81	0.19	**438**
Main Vn	258.70	265.41	**6.71**	**5.81**	0.10	**204**	1.83	1.46	0.07	**376**
Including	259.25	260.60	1.35	1.17	0.03	**233**	0.98	1.03	0.08	**338**
And	261.84	262.75	0.91	0.79	0.11	**347**	**2.98**	**2.20**	0.02	**606**
And	264.51	265.41	0.90	0.78	0.10	**244**	**3.00**	**2.04**	0.03	**498**
FW Vein	272.60	272.72	0.12	0.10	0.12	30	**3.61**	1.84	0.04	**310**
Holes ES-17-18										
	257.49	265.31	**7.82**	**6.77**	0.04	79	0.68	0.53	0.03	141
Including	257.49	259.65	**2.16**	**1.87**	0.03	**231**	1.19	1.38	0.03	**357**
Including	258.98	259.65	0.67	0.58	0.04	**358**	0.70	1.85	0.03	**479**
Hole ES-17-19										
	296.44	309.41	**12.97**	**11.23**	0.74	**219**	0.90	0.43	0.05	**382**
HW Vein	296.44	298.83	**2.39**	**2.07**	0.04	**261**	**2.09**	0.92	0.15	**406**
Main Vein	298.33	302.01	**3.18**	**2.75**	**2.76**	**552**	1.16	0.63	0.08	**850**
Including	300.73	302.01	1.28	1.11	**6.39**	**1,281**	**2.23**	1.25	0.18	**1,938**
FW Vein	306.88	308.62	1.74	1.51	0.39	**256**	1.68	0.74	0.02	**406**
**Silver equivalents calculated assuming 100% recoveries (for Ag Eq calculation only – may not reflect actual recoveries) and Ag US$17/oz, Au US$1,250/oz,Cu US$2.50/lb, Zn US$1.30/lb, and Pb US$1.00/lb*										

Sandra-Escobar

The Sandra silver-gold project covers 6,333 hectares, located 200 kilometres northwest of the City of Durango. The Company has a 40% interest in the adjoining 634-hectare Escobar claims of Pan American Silver Corp., earned under an option agreement with Pan American between 2008 and 2012. The project hosts a high-level silver-gold system centered on a large altered rhyolite dome complex, with widespread silver, gold, and base metal mineralization indicating potential for disseminated mineralization, as well as several high-grade veins.

The Company's previous exploration programs included geological mapping and surface sampling, a 420 line-km ZTEM airborne geophysical survey, petrographic analysis of surface samples, high resolution satellite imaging and topographic mapping surveys, an 1,848-metre diamond drill program in eleven drill holes, ASTER satellite alteration imaging survey and a 11.8 line-kilometre ground IP survey. These programs suggest a large hydrothermal system centred on an intrusive source and identified five silver-gold-base metal drill targets over an area of 25 square kilometres.

In September 2015, the Company signed an option agreement providing Orex with the right to earn up to a 65% interest in the project. Orex can earn an initial 55% interest by paying the Company $500,000 (received) and incurring US$2,000,000 in exploration expenditures over a three-year period (completed). Upon vesting its 55% interest, Orex could earn an additional 10% interest by paying the Company $500,000 in cash or shares, at Orex's option, and incurring an additional US$2,000,000 in exploration expenditures within two years. The Company has a director in common with Orex. On January, 10, 2017, Orex advised the Company that it would be electing to earn a 55% interest in the Sandra-Escobar project to form a 55:45 joint venture and to forego the option to earn up to 65% in the project. Orex reported expenditures of approximately US$2,100,000 under the option agreement.

During 2016 Orex completed extensive surface sampling including 3,652 soil samples and 381 chip samples, geological mapping over an area of 3,880 hectares, and a helicopter borne radiometric survey over an area of 2,400 hectares. Orex also completed four phases of core drilling for a total of 65 holes and 9,953 metres of drilling in the southeast part of the project area. These drill programs delineated an area with disseminated near-surface silver mineralization over a strike distance of approximately 750 metres and a width of approximately 250 metres in a tabular body with a thickness varying between 25 metres to 45 metres (the "Main Zone" or subsequently the "Boleras Deposit"). The consistency of grades within the mineralized intervals of the Boleras Deposit was favourable, with continuous silver mineralization throughout the mineralized zone and within individual drill intercepts. Step-out holes drilled in adjacent zones to the west and northwest of the Boleras Deposit indicated potential for additional mineralized zones in these areas.

On October 31, 2016, Orex released the results of an initial resource estimate completed by Mining Plus Consultants focused on the Main Zone for an Inferred Resource of 9.8 million tonnes grading 106 g/t Ag for a total of 33.3 million ounces Ag at a "Base Case" of 45 g/t Ag cut-off, as detailed in the table below and in Canasil and Orex news releases dated October 31, 2016.

Boleras Silver Deposit – Inferred Resource Estimate by Cut-Off Grade					
Cut-off Grade Ag (g/t)	Tonnes	Grade Ag (g/t)	Grade Ag (oz/t)	Silver (M-g)	Silver (oz)
15	12,100,000	92	3.0	1,120	35,800,000
30	11,500,000	96	3.0	1,100	35,400,000
45	**9,800,000**	**106**	**3.4**	**1,040**	**33,300,000**
60	8,000,000	118	3.8	950	30,400,000
75	6,400,000	131	4.2	840	26,900,000
90	5,000,000	145	4.7	720	23,100,000

Note: Mineral Resources are not Mineral Reserves and do not have demonstrated economic viability.

The technical report containing the foregoing Resource Estimate is available on SEDAR (www.sedar.com). The report titled "Sandra-Escobar Project Technical Report, Boleras Mineral Resource Estimate", dated December 1, 2016 (the "Technical Report") was prepared for Orex by J.M. Collins, P.Geo., A. Fowler, MAusIMM CP (Geo), and S. Butler, P. Geo., of Mining Plus Canada consulting Ltd. Mssrs. Collins, Fowler and Butler are qualified persons as defined under National Instrument 43-101 of the Canadian Securities Administrators – Standards of Disclosure for Minera Projects.

On December 15, 2016, Orex announced that metallurgical testing using conventional methods returned very low recoveries from composite samples prepared to represent the average grades reported in the Boleras deposit. The Boleras deposit is located on a very small area of less than 1.0 square kilometre in the southeast of the property, which covers over 60.0 square kilometres. There are several other prospective zones and mineralized targets within the project area which were not tested by the Orex exploration program to date that could be investigated in future programs.

In December 2017, the Company, Pan American, and Orex entered into a non-binding letter of intent to enter into an option agreement whereby the three companies will advance the Sandra-Escobar project jointly. A condition precedent to signing the definitive option agreement is Pan American withdrawing its legal action. The terms of the letter of intent with Pan American and Orex provide for the parties to incur optional expenditures of US$6,000,000 (US$5,000,000 by Pan American and US$1,000,000 jointly by Canasil and Orex) over a period of four years. Following completion of these expenditures, Pan American will hold a 51% interest and Canasil and Orex will jointly hold a 49% interest in the combined Sandra and Escobar properties. Pan American will have a further option to increase its interest to 60% in the combined properties by completing a pre-feasibility study on the project.

Salamandra

The Salamandra zinc-silver project is located in Durango State, 35 kilometres northeast of the City of Durango, with excellent access by paved and gravel roads. The project area covers 14,719 hectares and was acquired through staking of claims and an option agreement to purchase a 100% interest in the central 900 hectares of claims based on a schedule of payments of which US$225,000 has been paid to date, and subject to a net smelter returns royalty ("NSR"). In April 2017, this agreement was renegotiated to provide for the Company to acquire a 100% interest in the 900 hectares within the project area by making a final payment of US$25,000, for a total of US$250,000 over the term of the agreement. These claims will be subject to a 0.5% NSR that can be purchased from the owner for US$500,000.

Past exploration by Canasil at Salamandra includes geological mapping and surface sampling, 3D-IP ground geophysics, ZTEM airborne geophysics and twelve diamond drill holes for a total of 3,595 metres. In May 2013, the Company signed an option agreement with MAG on the Salamandra project providing MAG with the right to earn up to a 70% interest in the property. In February 2016, MAG withdrew from the agreement without earning an interest in the project and as a result Canasil retains a 100% interest in Salamandra. The Company received cash payments totaling $500,000 from MAG during the period of the agreement.

MAG reported completion of $5.8 million in cumulative qualifying expenditures to December 31, 2015. The exploration programs included surface sampling and data review in 2013, followed by Phase-1, Phase-2, and Phase-3 diamond drill programs for a total of 14,382 metres in 23 drill holes completed between 2013 and 2015. The surface sampling and data review identified indications of large carbonate replacement deposits at Salamandra. The drill programs reported encouraging high-grade silver-copper-zinc intercepts, pervasive zinc mineralization, and finally, an interesting interval of gold-tungsten mineralization.

Highlights of the MAG drill programs at Salamandra included the following drill holes:

- SA14-15 intersected high-grade silver-copper mineralization over 7.89 metres, assaying 166 g/t Ag and 1.2% Cu, including 2.3 metres grading 393 g/t Ag and 3.6% Cu with anomalous lead and zinc;
- SA13-13 cut 31.72 metres grading 3.5% Zn including 17.72 metres grading 5.0% Zn with no other anomalous metals. Notably, SA13-13 contained zinc mineralization for almost its entire length, with 810 metres averaging 0.6% Zn including several thick zones grading over 1.5% Zn;
- SA14-14 returned two intercepts, one with 0.48 metres of 197 g/t Ag, 0.4% Cu and 1.1% Zn, and the second with 0.42 metres of 108 g/t Ag, 0.5% Cu, and 0.6% Zn;
- SA14-20 cut 0.63 metres grading 258 g/t Ag with 0.27% Cu lying immediately above 9.9 metres grading 2.3% Zn;
- SA14-19, 22, and 24 all cut significant widths of zinc mineralization; hole SA14-28 cut 173.46 metres of 1.0% Zn starting 20 metres below the surface;

Salamandra manifests signs of an extensive, complex system with a strong metals endowment. Pervasive zinc mineralization intersected in most of the drill holes, the high-grade silver-copper intercepts and deeper gold and tungsten intercepts indicate the potential for a large metalliferous system at Salamandra. This system remains open for expansion through additional drilling.

Qualified Person, Quality Assurance and Control: The above results for the Salamandra project were compiled and provided by MAG; for details regarding the Qualified Person and Quality Assurance and Control procedures, please refer to the MAG news release dated March 17, 2014 for the Phase-1 results, and July 21, 2014, for the Phase-2 results, and December 17, 2015, for the Phase-3 results.

Brenda

The Brenda gold-copper project covers 4,450 hectares, and is located in north-central British Columbia, 20 kilometres northwest of the past producing Kemess South Mine. Comprehensive exploration programs carried out to date include satellite surveys, airborne and ground geophysics, extensive geological mapping and sampling and 11,000 metres of diamond drilling in 64 drill holes. These programs highlight the potential for a deep-seated porphyry gold-copper system at the Brenda project, possibly similar in style to mineralization found at the nearby Kemess Underground (North Kemess) deposit being advanced by AuRico Metals Inc., located approximately 15 kilometres southeast of the Brenda property.

Two deep drill holes intersected broad gold-copper mineralized zones with increasing grades to a depth of 560 metres, with the average grade of five intercepts above a depth of 450 metres returning 0.48 g/t Au and 0.079% Cu over a combined intercept length of 394 metres; the average grade of three intercepts below 450 metres returned 0.68 g/t Au and 0.116% Cu over a combined intercept length of 93 metres. The mineralized system averages 300 to 400 metres in width and has been traced along a strike length of 400 metres by drilling, with a potential strike length in excess of 1,000 metres indicated by the chargeability anomalies observed in a 3-Dimensional Induced Polarization geophysical survey. In August 2013, a 962-metre diamond drill hole, BR-13-01, was completed to twin BR-07-04 and investigate the possibility of higher grade gold-copper mineralization at depth. This drill hole returned lower grades than the equivalent intercepts in BR-97-04 from 504 metres to 572 metres, and the intercepts below 570 metres returned no significant gold-copper mineralization with only low copper and gold values over certain intervals.

In late 2016 and early 2017, the Company undertook a comprehensive technical review of the Brenda project data. All historical data has been reviewed and checked prior to modelling and analysis using modelling software. Detailed analysis of the data has identified targets for further exploration including additional mapping and sampling, deeper sensing ground and airborne geophysics and drill testing. The Company has applied for a five-year exploration permit including 10,000 metres of drilling. The Brenda project remains an attractive prospect based on the results to date, excellent road access and proximity to Kemess with its advanced infrastructure including power grid, year-round airfield, and mining facilities. There was $41,000 in expenditures incurred on the Brenda project during the period which included field inspections required for completion of the technical report, an environmental assessment report and upgrades to the camp. Assessment filings based on exploration work completed to date at the Brenda project have extended the claim validity on all Brenda claims to May 30, 2024.

Vega

The Vega project is located in north-central British Columbia, approximately 300 kilometres northwest of Prince George, BC, with access via the Omineca Mines Access Road and logging roads. The project covers 9,002 hectares on the Quesnel trough trend running through central British Columbia and hosting the Mount Milligan, Chuchi, Kwanika, Lorraine and Cat porphyry deposits. There are several showings in the eastern and western sectors of the Vega property prospective for hosting copper-gold porphyry mineralization. Most of the past exploration work done by Canasil has been focused on the Vega Showings located in the eastern portion of the property. More recent work has identified additional gold/copper showings on the western side of the property, most notably the Pluto showing.

In September 2016, the Company carried out prospecting field work on the Pluto and Vega showings. This work confirmed past observations on the Vega showing, and in particular highlighted the Pluto showing identifying the surface signature typical of the upper levels of porphyry copper-gold mineralized systems. The Company conducted an airborne magnetics geophysical survey covering the Vega property area in November 2016. This survey returned encouraging results highlighting structural corridors which are prospective for hosting porphyry mineralized systems both in the east and west of the project area. Assessment filings form this work extended the mineral claims covering the prospective areas of the Vega project to October 2018.

The Company plans to follow up on this work with further surface sampling and geological mapping of these zones to define drill targets. There were no significant expenditures on the Vega property during the period.

Technical

Jerry Blackwell, P. Geo. British Columbia, and Advisor to the Board of Canasil, is the Company's designated Qualified Person in accordance with National Instrument 43-101 in relation to data provided with regard to exploration programs undertaken by the Company. On the Sandra-Escobar project under option with Orex, the Company has also relied on the Qualified Person at this company who is responsible for the exploration programs under the terms of option agreement.

INVESTOR RELATIONS

The Company maintains a website, www.canasil.com, with detailed corporate information and information covering its mineral exploration projects and operations. The Company attended the PDAC conference in Toronto in March 2018 and participated in the Sprott Vancouver Natural Resource Symposium in July 2017.

GENERAL CONDITIONS AFFECTING THE COMPANY'S OPERATIONS

General Trends

The principal business of the Company is the acquisition, exploration and, if warranted, development of natural resource properties of merit. The Company is not geographically limited to any particular region but in recent years has focused attention on mineral resource properties in Canada and Mexico.

The volatility in the resources sector caused by the sharp decrease in metals and commodity prices following the global financial crisis of 2008, the subsequent increase to record levels by March 2011, and subsequent drops from 2011 to 2015 resulted in a loss of confidence in the resources sector among investors. This resulted in a general decline in the share prices of resource companies, and in particular for junior explorers, and presented significant constraints on funding exploration companies and programs. Following a short period of improving conditions between mid-December 2013 to mid-March 2014, as well as in January 2015, precious and base metal prices suffered further significant drops to close at an annual low in December 2015. In 2016 there was a gradual recovery, particularly in the prices for gold and silver with silver rising to over $20 per ounce in June/July 2016, leading to greater optimism and activity in the resource sector. This resulted in both greater funding opportunities for exploration companies as well as possibilities for conclusion of cooperation agreements with third parties to advance exploration projects. In 2017 and to the date of this report, gold and silver prices have been volatile without a clear trend, with silver fluctuating between highs of $18 per ounce and lows below $16.50 per ounce. As at the date of this report, silver is trading at $16.50 per ounce. While this has dampened some of the earlier interest in the exploration sector, there still appears to be interest on the part of larger companies in exploration and in the acquisition and funding of high quality precious metals exploration projects. This has been a positive development given the Company's large portfolio of high quality 100%-owned precious and base metals exploration projects.

Competitive Conditions

The outlook for acquisition and development of mineral resource projects improved markedly in 2016, following a prolonged period of decline from early March 2011 to December 2015 due to lower metal prices and slowing global growth rates. The conditions in 2017 and to the date of this report have been less favourable, however there is an overall continued interest in the resource sector and the mining industry driven by the need to replace reserves which have been depleted due to the extended downturn in the industry and cut-backs in exploration and replacement of reserves between 2011 and 2015.

Environmental Protection

Environmental legislation is evolving in a manner such that standards, enforcement, fines and penalties for non-compliance are becoming stricter. Environmental assessments of proposed projects carry a heightened degree of responsibility for companies and directors, officers and employees. The cost of compliance with changes in government regulations has the potential to reduce the profitability of future operations. To the Company's knowledge, it is in compliance with all environmental laws and regulations affecting its operations.

Number of Employees

As of December 31, 2017, the Company had one employee in Canada and five employees in Mexico. Significant administrative, management, and certain geological services are provided to the Company by directors, officers, and consultants. The Company, through its wholly-owned Mexican subsidiary, Minera Canasil SA de CV., maintains a full-time operating office with geological and support staff in Durango, Mexico.

Acquisition and Disposition of Mineral Properties

During the year ended December 31, 2017, the Company did not dispose of any mineral properties. In December 2017, the Company signed a non-binding letter of intent with Pan American and Orex, which provides the basis for entering into a definitive agreement whereby the three companies will advance the Sandra-Escobar property jointly (see *"Mineral Property Summary"*). Due to limited funding in the years 2013 to 2015, the Company has allowed certain claim payments on non-core properties to fall into arrears and has allowed certain claims to lapse. Such claims may or may not be re-instated depending on the circumstances. During 2016 and 2017, the Company added to its Vega project by staking additional claims.

RISK FACTORS RELATING TO THE COMPANY'S BUSINESS

The Company's ability to generate revenue and profit from its mineral resource properties, or any other resource property it may acquire, is dependent upon a number of factors, including, without limitation, the following:

Precious and Base Metal Price Fluctuations

The Company's ability to finance its mineral property acquisition, exploration and eventual development is dependent upon the market price of certain precious and base metals. The price of such metals has fluctuated widely and is affected by numerous economic and political factors, consumption patterns, speculative activities, levels of supply and demand, increased production due to new mine developments and productivity, metal substitutes and stock levels. These fluctuations may result in the Company not receiving an adequate return on invested capital or the investment retaining its value.

Operating Hazards and Risks

Mining operations generally involve a high degree of risk, which even a combination of experience, knowledge and careful evaluation may not be able to overcome. Operations in which the Company has a direct or indirect interest will be subject to all the hazards, risks and liabilities normally incidental to exploration, development and production of precious and base metals. The Company presently carries limited liability insurance, and potential liabilities arising from its operations may have a material, adverse effect on the Company's financial position.

Exploration and Development

There is no known body of commercial ore on the Company's mineral properties. Development of the Company's properties will only follow upon obtaining satisfactory exploration results. Mineral exploration and development involves a high degree of risk and few exploration properties are ultimately developed into producing mines. There is no assurance that the Company's mineral exploration and development activities will result in any commercially viable discoveries.

Substantial expenditures are required to establish reserves through drilling, to develop metallurgical processes and the mining and processing facilities and infrastructure at any site chosen for mining. Although substantial benefits may be derived from the discovery of a major mineralized deposit, no assurance can be given that minerals will be discovered in sufficient quantities to justify commercial operations or that the funds required for development can be obtained on a timely basis.

The marketability of any minerals acquired or discovered may be affected by numerous factors which are beyond the Company's control and which cannot be accurately predicted, such as market fluctuations, the proximity and capacity of milling facilities, mineral markets and processing equipment, and such other factors as government regulations, including regulations relating to royalties, allowable production, importing and exporting minerals and environmental protection.

Calculation of Reserves and Mineralization and Precious and Base Metal Recovery

There is a degree of uncertainty attributable to the calculation of reserves and mineralization and corresponding grades being mined or dedicated to future production. In addition, there can be no assurance that precious or other metal recoveries in small-scale laboratory tests will be duplicated in larger scale tests under on-site conditions or during production.

Government Regulation

Operations, development and exploration on the Company's properties are affected to varying degrees by government regulations relating to such matters as environmental protection, health, safety and labour; mining law reform; restrictions on production; price controls; tax increases; maintenance of claims; tenure; and expropriation of property. There is no assurance that future changes in such regulation, if any, will not adversely affect the Company's operations.

Environmental Factors

All phases of the Company's operations are subject to environmental regulation in the various jurisdictions in which it operates. Environmental legislation is evolving and requires stricter standards and enforcement, increased fines and penalties for non-compliance, more stringent assessments of proposed projects and a heightened degree of responsibility for companies and their officers, directors and employees. There is no assurance that future changes in environmental regulation will not adversely affect the Company's operations. Environmental hazards may exist on the Company's properties, which are unknown to the Company at present and which have been caused by previous or existing owners or operators of the properties.

Title to Assets

Although the Company has or may receive title opinions for any properties in which it has a material interest, there is no guarantee that title to such properties will not be challenged or impugned. The Company has not conducted surveys of the claims in which it holds direct or indirect interests and therefore, the precise area and location of such claims may be in doubt. The Company's claims may be subject to prior unregistered agreements or transfers or native land claims and title may be affected by undetected defects.

Foreign Operations

The Company operates in Mexico and has acquired mineral properties through staking and option agreements to acquire interests in mineral claims. The Company is currently engaged in exploration activities on these properties.

Management and Directors

The Company is dependent on a small number of directors and officers and operating personnel in Mexico: Alvin Jackson, Michael McInnis, Arthur Freeze, Bahman Yamini, Iain MacPhail, Kerry Spong, Graham Scott, and Erme Enriquez. The loss of any of these persons could have an adverse effect on the Company. Gary Nordin, a former director of the Company, and Jerry Blackwell are members of the Company's advisory board. The Company does not maintain key person insurance on any of its management.

Conflicts of Interest

Certain officers and directors of the Company are officers and/or directors of other natural resource companies that acquire interest in mineral properties. Such associations may give rise to conflicts of interest from time to time. The directors are required by law to act honestly and in good faith with a view to the best interests of the Company and its shareholders. They are also required to disclose any personal interest in any material transaction, which is proposed to be entered into with the Company, and to abstain from voting as a director for the approval of any such transaction.

Operating History - Losses

The Company has experienced losses in all years of its operations. There can be no assurance that the Company will operate profitably in the future. As of December 31, 2017, the Company's accumulated deficit was $27,307,062.

Price Fluctuations and Share Price Volatility

In recent years, the securities markets in the United States and Canada have experienced a high level of price and volume volatility. The market price of securities of many mineral exploration companies have experienced wide fluctuations in price, which has not necessarily been related to their operating performance, underlying asset value or prospects. During the year, and to the date of this report, the price of the Company's shares fluctuated from a low of $0.095 to a high of $0.205 per share. There can be no assurance that continued fluctuations in price will not occur.

Shares Reserved for Future Issuance - Dilution

As at the date of this report, a total of 104,206,622 common shares of the Company are issued and outstanding. There are 7,635,000 stock options and 4,194,250 share purchase warrants outstanding pursuant to which additional common shares may be issued in the future, which would result in further dilution to the Company's shareholders and pose a dilutive risk to potential shareholders.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The Company's consolidated financial statements have been prepared by, and are the responsibility of, the Company's management. The consolidated financial statements are prepared in accordance with IFRS and reflect management's best estimates and judgement based on information currently available. Management has developed and is maintaining a system of internal controls to obtain reasonable assurance that the Company's assets are safeguarded, transactions are authorized, and financial information is reliable. The board of directors is responsible for ensuring that management fulfills its responsibilities. The audit committee reviews the results of the annual audit and the annual consolidated financial statements prior to their submission to the board of directors for approval. The consolidated financial statements have been audited by Davidson & Company LLP and their report outlines the scope of their examination and gives their opinion on the consolidated financial statements.

CONTROLS AND PROCEDURES

The chief executive officer and chief financial officer of the Company will file a Venture Issuer Basic Certificate with respect to the financial information contained in the unaudited interim condensed financial statements and the audited annual financial statements and respective accompanying Management's Discussion and Analysis. In contrast to the certificate for non-venture issuers under National Instrument ("NI") 52-109 (Certification of disclosure in an Issuer's Annual and Interim Filings), the Venture Issuer Basic Certification does not include representations relating to the establishment and maintenance of disclosure controls and procedures and internal control over financial reporting, as defined in NI 52-109.

DISCLOSURE CONTROLS AND PROCEDURES

Disclosure controls and procedures ("DC&P") are intended to provide reasonable assurance that information required to be disclosed is recorded, processed, summarized and reported within the time periods specified by securities regulations and that information required to be disclosed is accumulated and communicated to management. Internal controls over financial reporting ("ICFR") are intended to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purpose in accordance with IFRS.

TSX-V listed companies are not required to provide representations in the interim and annual filings relating to the establishment and maintenance of DC&P and ICFR, as defined in NI 52-109. In particular, the certifying officers do not make any representations relating to the establishment and maintenance of (a) controls and other procedures designed to provide reasonable assurance that information required to be disclosed by the issuer in its annual filings, interim filings or other reports filed or submitted under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation, and (b) a process to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

The issuer's certifying officers are responsible for ensuring that processes are in place to provide them with sufficient knowledge to support the representations they are making in their certificates regarding the absence of misrepresentations and fair disclosure of financial information. Investors should be aware that inherent limitations on the ability of certifying officers of a TSX-V issuer to design and implement on a cost effective basis DC&P and ICFR as defined in NI 52-109 may result in additional risks to the quality, reliability, transparency and timeliness of interim and annual filings and other reports provided under securities legislation.

CAUTIONARY NOTE

Certain statements made and information contained in this MD&A and elsewhere constitute "forward-looking information" within the meaning of the Ontario Securities Act. Forward-looking statements are subject to a variety of risks and uncertainties which could cause actual events or results to differ from those reflected in the forward-looking statements, including, without limitation, risks and uncertainties relating to the interpretation of drill results and the estimation of mineral resources, the geology, grade and continuity of mineral deposits, the possibility that future exploration, development results will not be consistent with the Company's expectations, accidents, equipment breakdowns, title matters and surface access, labour disputes, the potential for delays in exploration activities, the potential for unexpected costs and expenses, commodity price fluctuations, currency fluctuations, failure to obtain adequate financing on a timely basis and other risks and uncertainties, including those described under Risk Factors in each management discussion and analysis. In addition, forward-looking information is based on various assumptions including, without limitation, the expectations and beliefs of management, the assumed long term price of precious and base metals, that the Company will receive required permits and access to surface rights, that the Company can access financing, appropriate equipment, sufficient labour and subcontractors, and that the political environment within the Company's operating jurisdictions will continue to support the development of environmentally safe mining projects. Should one or more of these risks and uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those described in forward-looking statements. Accordingly, readers are advised not to place undue reliance on forward-looking statements.

APPROVAL

The Board of Directors of the Company has approved the disclosure contained in this annual MD&A. A copy of this MD&A and previously published financial statements and MD&A, as well as other information is available on the SEDAR website at www.sedar.com, and on the Company's website at www.canasil.com